

# **STATE OF INDIANA**

## **State Revolving Fund Loan Programs**



## **Clean Water State Revolving Fund Loan Program (CWSRF)**

**Annual Report  
SFY 2007**

**July 1, 2006 through June 30, 2007**

STATE OF INDIANA  
CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM  
ANNUAL REPORT  
(State Fiscal Year 2007)

I. INTRODUCTION

Pursuant to 40 CFR 35.3165, the State of Indiana (State), acting through its Indiana Finance Authority (Authority) submits its Annual Report for the Clean Water State Revolving Fund Loan Program (CWSRF Loan Program) to the Regional Administrator of the U.S. Environmental Protection Agency (EPA), Region V.

This Annual Report is for State Fiscal Year (SFY) 2007 (July 1, 2006 - June 30, 2007). It is prepared in accordance with Section 606(d) of the Clean Water Act, as amended by the Water Quality Act of 1987, and 40 CFR 35.3165(a) and (b).

II. SRF LOAN PROGRAM MANAGEMENT

Pursuant to Indiana Code 4-4-11, the SRF Loan Programs are administered by the Authority.

Management of the CWSRF Loan Program is the responsibility of the following individuals:

A. James P. McGoff – Director:

Mr. McGoff serves as Director of Environmental Programs for the Authority. As Director, Mr. McGoff is responsible for the management of the SRF Loan Programs and management of all personnel assigned to the SRF Loan Programs.

B. William D. Harkins, Jr. –Section Chief:

Mr. Harkins supervises all technical and environmental review staff assigned to the SRF Loan Programs.

C. Matthew D. Martin – Finance Manager:

Mr. Martin is responsible for the management of all financial and accounting aspects of the SRF Loan Programs.

D. Deborah Wright – General Counsel

Ms. Wright serves as General Counsel to the SRF Loan Programs.

E. Shelley Love – Wastewater Administrator:

Ms. Love is responsible for administering the CWSRF Loan Program, tracking the progress of projects, and serving as the correspondent between the CWSRF Loan Program, its Participants and EPA Region V.

An organizational chart is attached as Exhibit A reflecting all SRF Loan Program Employees.

III. GOALS AND OBJECTIVES OF THE SFY 2007 INTENDED USE PLAN (IUP) –  
(Sections 603(g), 606(c) and Section 216 of the Clean Water Act)

The goal of the CWSRF Loan Program is to facilitate statewide compliance with state and federal water quality standards by prioritizing funding of Proposed Projects that provide enhancement or protection of water quality and public health, as well as assisting Participants most in need on a per household basis.

We met the above goal by creating a project priority list; meeting the goals of the SFY 2007 Intended Use Plan; and following the CWSRF Loan Program's Rank and Score System. Together, by satisfying these goals, the CWSRF Loan Program was able to provide loans to 17 Participants thereby enabling them to satisfy the federal water quality standards.

In addition to the above, the CWSRF Loan Program also accomplished the following:

- A. West Lafayette used CWSRF financing to establish a Fats, Oils and Grease Program, as well as a Cogeneration Facility at its wastewater treatment plant. The plant will receive and treat fats, oils, and grease to produce methane gas and an earth-like byproduct. For this, the City of West Lafayette received an Environmental Protection Agency PISCES (Performance and Innovation in the SRF Creating Environmental Success) Award for a wastewater project with innovative environmental and economic benefits.

The SRF Loan Program evaluated the disbursement process and determined that a greater level of review could be implemented with minimal cost and additional staff time. By implementing a secondary review of disbursements by the technical review team communities are provided a second level of review of the invoices they submit to ensure eligible costs are being reimbursed.

An ongoing priority for the SRF Loan Programs is to provide Nonpoint Source funding to Indiana communities. This year we provided \$32,347,963 to enable communities to reduce nonpoint source pollution. These projects eliminated a significant source of nonpoint source problems by the replacement of decentralized system (septic systems) with centralized systems (collector sewers).

The CWSRF Loan Program recognizes the importance of implementing Total

Maximum Daily Load (TMDL)s throughout the state. The CWSRF Loan Program worked with the IDEM TMDL section to identify where CWSRF Loan Program funds were utilized which alleviated the pollution sources identified in EPA-approved TMDLs. The SRF Loan Programs provided funding for four TMDL implementation projects totaling \$27,362,594 in SFY 2007. The CWSRF Loan Program will utilize the IDEM TMDL reports to prioritize future projects where SRF funding will enable communities to implement projects.

B. Financial Results

The CWSRF Loan Program's subsidized interest rates enabled Participants closing loans through the CWSRF Loan Program to save a cumulative \$19,485,900 in SFY 2007. Exhibit C, attached hereto details each Participant's savings.

C. CWSRF Loan Program Financial Statements

1. The CWSRF Loan Program is audited annually by an independent certified public accounting firm. For the SFY 2007 ended June 30, 2007, the CWSRF Loan Program received an unqualified opinion from our independent auditors, which is attached as Exhibit D.

2. The CWSRF Loan Program is audited annually for compliance with the requirements set forth in the U.S. Office of Management and Budget (OMB) Circular A-133. For the SFY 2007 ended June 30, 2007, the CWSRF Loan Program was determined to be "in compliance," as noted in the Schedule of Expenditures of Federal Awards and OMB Circular A-133 Auditor's Reports, which is attached as Exhibit E.

IV. ENVIRONMENTAL REVIEW AND BENEFITS [40 CFR 35.3165 (b) (1)]

During SFY 2007, 18 projects received CWSRF Loan Program funding. Each project is briefly described in Exhibit F, attached hereto. Prior to funding, each project was reviewed in accordance with Federal Cross-Cutting Authorities and in accordance with the State's EPA-Approved environmental review procedures (SERP).

The communities receiving funds from the CWSRF Loan Program during SFY 2007 will realize the following significant environmental and public health benefits:

- A. Abatement of CSO discharges along approximately 40 miles of stream segments, resulting in a reduction of E. coli and pathogen loading;
- B. Elimination of sewage back-ups into basements and ponding septic effluent in yards via the connection of malfunctioning septic systems to sewers;
- C. Elimination of safety hazards at two WWTPs and at manholes in one sewer system; and

D. Increased compliance with NPDES permits.

V. STATE MATCH [40 CFR 35.3165 (b) (2)]

The State has fully met its State Match requirements through the end of SFY 2007 and anticipates that it will continue to do so principally by means of depositing net proceeds in the CWSRF from revenue bonds payable solely from SRF earnings. Approximately \$5.32 million of additional State Match was deposited in the CWSRF in SFY 2007. To date, the CWSRF State Match has aggregated in excess of 20% of the awarded \$614,278,653 capitalization grants through June 30, 2007 as summarized in the table of cumulative State Match set forth in Exhibit G. This report details State Match deposited in the CWSRF through the end of SFY 2007, the sources of such State Match, and how repayment of revenue bonds providing any such State Match has been, and will continue to be, managed in a manner consistent with federal and state law.

VI. TITLE II COMPLIANCE [40 CFR 35.3165 (b) (3)]

All CWSRF Loan Program loans this year were for Wastewater Treatment Works projects and, as such, comply with the Title II equivalency requirements. The State has made binding commitments that exceed 120% of the capitalization grants awarded and continues to bank the excess balance toward the binding commitments that may be required in future years.

VII. BINDING COMMITMENTS EXCEED 120% OF GRANT [40 CFR 35.3165 (b) (4)]

The CWSRF Loan Program has closed loans totaling more than the required 120% of all capitalization grants awarded to the CWSRF Program within one year of the award of each capitalization grant in accordance with Section 602(b)(3) of the Clean Water Act. Such binding commitments currently exceed 270% of all capitalization grants received by the CWSRF Loan Program with the excess being banked toward meeting future binding commitment requirements. A summary of the capitalization grants awarded in SFY 2007 and a cumulative summary of all capitalization grants awarded to the CWSRF Loan Program is attached hereto as Exhibit H.

VIII. EXPEDITIOUS AND TIMELY USE OF FUNDS [40 CFR 35.3165 (b) (5)]

During SFY 2007, the CWSRF Loan Program closed 18 loans with qualified Indiana Communities ("Participants") in the amount of \$115,711,000. Since the inception of the CWSRF Program, 270 loans have been closed aggregating approximately \$1.68 billion. This represents over two times the \$614,278,653 in federal capitalization grants that have been awarded to the CWSRF Program since its inception. The CWSRF Loan Program disbursed \$299,276,509 to Participants in SFY 2007 to fund approved expenses of projects that were previously financed with a CWSRF Program loan.

The State's CWSRF Loan Program is a leveraged program and has established itself as a highly rated borrower in the national bond market. The State has utilized its capitalization grants to leverage multiple series of bonds, including several refunding series, aggregating over \$1.477 billion in outstanding principal amount as of June 30, 2007 a portion of which have funded CWSRF Loan Program loans. A summary of the accounts and associated balances are set forth in Exhibit I, attached hereto. As of June 30, 2007, the aggregate amount of loans committed *exceeds* on-hand balances in the CWSRF. Future bond issuances are expected to be used to fund these Excess Commitments together with new commitments related to new loans in future years. The balance of the bond proceeds, not available for loans, are used for reserve funds, administrative expenses, costs of issuance, etc.

A. Loan Rates

The State recognizes the continued need to balance the level of subsidy: that is, the cost of offering loans at below-market interest rates with the inherent limited capacity of the CWSRF Loan Program to meet demand for loans and community affordability constraints. This balancing is reflected in the State's present interest rate policy.

Interest rates applied to new loans are re-set on the first business day of each January, April, July and October using a Base SRF Program Interest Rate. The Base Rate is calculated by using 90 percent of the average 20-year AAA-rated, general obligation bond Municipal Market Data ("MMD") composite index for the most recent calendar month (Base Rate). The Base Rate is then discounted further based upon a borrower's Median Household Income (MHI) from the 2000 Census data and projected user rates. User Rate information is reviewed by the CWSRF Loan Program for use in finalizing a CWSRF Loan Program interest rate.

The CWSRF Loan Program interest rates ranged from a low of 2.65% to a high of 4.39% during SFY 2007. A summary of the actual interest rates for each quarter of SFY 2007 is set forth in Exhibit J, hereto.

B. Terms

Consistent with applicable law, all CWSRF Loan Program loans closed in SFY 2007 were structured with annual principal repayments, commencing one year after expected completion of the Proposed Project, and a final principal payment no later than 20 years after expected completion of the Proposed Project.

C. Refinancing

The State did not refinance any existing wastewater treatment projects during SFY 2007. However, the CWSRF Loan Program considers refinancing, commensurate with federal and State law, where (i) a Participant is proposing a new wastewater treatment project that will result in a significant improvement in water quality and (ii) as a result of State law or other restrictions on the Participant (including existing bond ordinance, trust indenture or credit agreement provisions), a refinancing of the existing debt is necessary or convenient as a matter of law or prudent fiscal or credit policy.

D. Administrative Expenses and Fees

During SFY 2007, the State used a portion (\$1,293,706) of the maximum allowable percentage of each federal capitalization grant to offset CWSRF Loan Program costs, including administrative, legal and financial fees and expenses, to the extent permitted by Section 603(d)(7) of the Clean Water Act to operate the CWSRF Loan Program in perpetuity. That portion not used is being carried forward for application in future years on an as needed basis. See Exhibit I for the balance of the CWSRF Program's four percent administrative expense limit remaining to meet its continuing needs.

During SFY 2007, subject to certain waivers, the CWSRF Loan Program assessed each Participant that closed a loan, a loan closing fee at the time the Participant closed its CWSRF Program loan. During SFY 2007, these fees totaled \$29,000.

The non-use fee policy of the CWSRF Loan Program assesses a non-use fee for CWSRF Loan Program loan funds that are not used within two years following a Participant's loan closing. Pursuant to the policy, each Participant that does not complete its project and fully expend the funds borrowed within two years after the loan closing, will be assessed a one percent fee on the balance of the funds that remain un-drawn. An additional one percent fee will be assessed each six months following the two year anniversary of the Participant's loan closing until the loan is fully drawn or closed out. No non-use fees were collected by the CWSRF Loan Program during SFY 2007.

E. Transfers to the Drinking Water SRF (DWSRF) from the CWSRF

Up to 33% of the amount of each Safe Drinking Water Act grant for FFY's 1997 through 2002 was permitted to be transferred on a net cumulative basis. This means that the flexibility existed to transfer funds to the CWSRF from the DWSRF and visa versa until October 1, 2002. Based on the State's award of Safe Drinking Water Act related funds for FFY 1997 through 2002, approximately \$23.7 million was transferred to the DWSRF from the CWSRF Loan Program as of June 30, 2007 and this transfer has now become permanent. For a summary of transfers, see Exhibit K attached hereto.

F. Cross-collateralization of the CWSRF with the DWSRF

To the extent permitted by the Clean Water Act and the Safe Drinking Water Act, each as supplemented by applicable federal law, the State has cross-collateralized the CWSRF Loan Program and the DWSRF Loan Program to optimize the capitalization requirements of each program and better manage the specific funding needs of projects assisted through them.

This cross-collateralization arrangement maximizes the security for bonds issued by the Indiana Bond Bank to capitalize either the CWSRF Loan Program or the DWSRF Loan Program. Accordingly, this could relate to and affect all types of monies and amounts held in the CWSRF Loan Program and the DWSRF Loan Program. The State expects that any such transfers would occur at any time necessary to prevent a default on any such bonds and would be made between accounts established for like purposes and subject to like restrictions. As of June 30, 2007, no transfers of this nature have been made.

The State expects to retain the flexibility to reimburse on a cumulative net basis any transfers made under a cross-collateralization arrangement. Because such a cross-collateralization arrangement is a contingent security concept and transfers are not expected or planned to occur, the State does not expect this to negatively affect the funding capacity of either the CWSRF Loan Program or the DWSRF Loan Program. However, if such transfers occur and are not reimbursed, it may affect the burdened fund's ability to make some volume of additional loans it otherwise might have been able to make.

G. Requirements for Loan Closing

The State requires each CWSRF Loan Program Participant to establish a dedicated source of payment for all loans made from the CWSRF Loan Program and cause such loans to be paid according to their terms. The State generally expects each loan to be evidenced by bonds, or other evidence of indebtedness, issued by or on behalf of the Participant. For a summary of all loans closed by the CWSRF Loan Program during SFY 2007, please see Exhibit L. These are shown in Exhibit M. Exhibit M1 is a state map reflecting the location of all loans closed in the CWSRF Loan Program since 1992. Exhibit M2 shows the location of all WW SRF loans closed in SFY 2007.

H. Recycled CWSRF Loan Program Funds

A portion of CWSRF may be considered "non-federal" funds. These funds include interest earned on SRF investments and certain borrower repayments. The CWSRF Loan Program utilizes a portion of these monies to fund CWSRF Loan Program eligible project expenses that can also be attributed to a state or local match for federal grant funding. See Exhibit N for a summary of how a

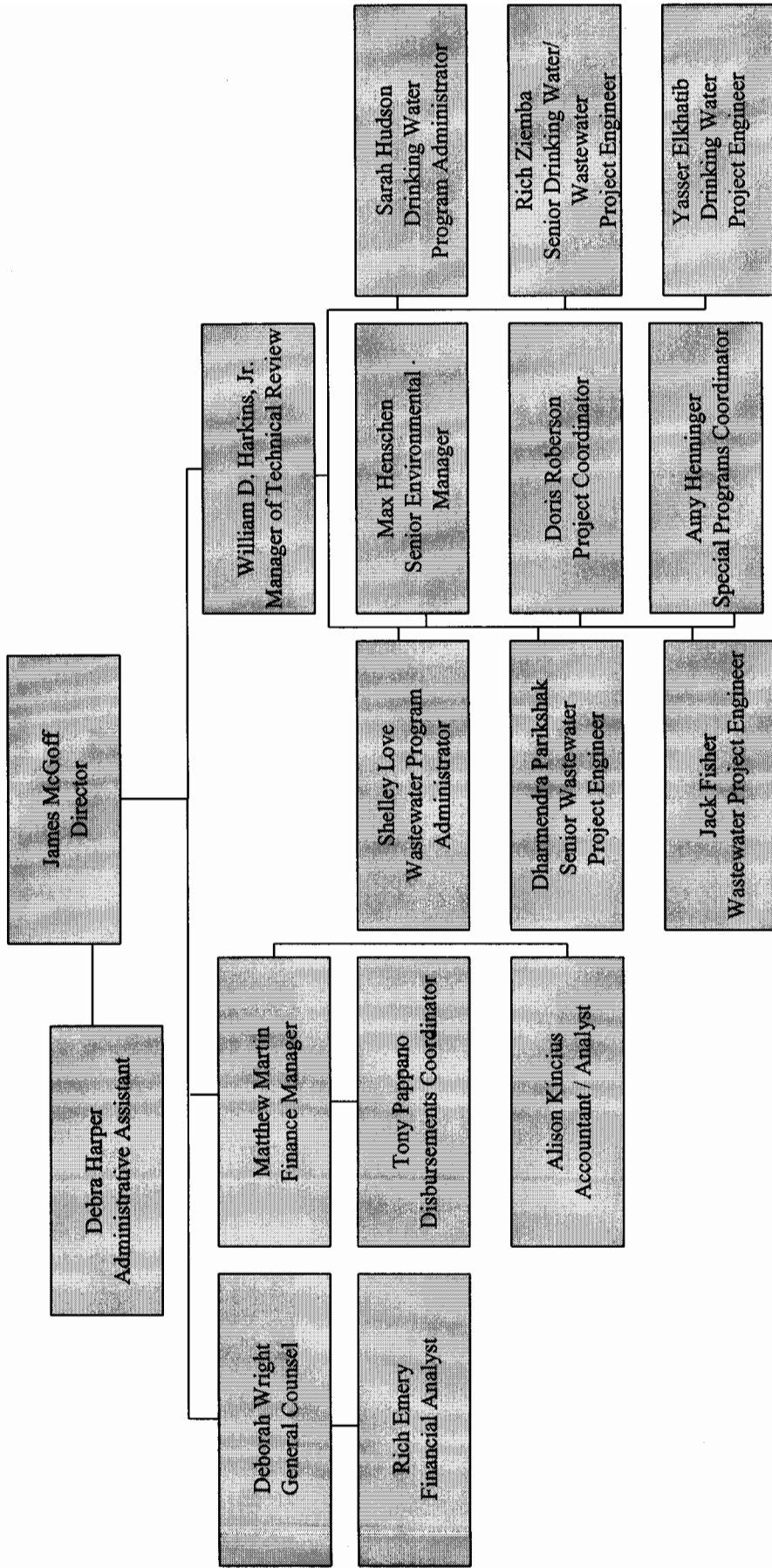


portion of the non-federal CWSRF funds have been allocated.

Exhibit A

STATE REVOLVING FUND LOAN PROGRAM ORGANIZATIONAL CHART

As of June 30, 2007



## Exhibit B

### Goals

The goal of the CWSRF Loan Program is to ensure clean water for the State of Indiana by providing low interest loans to facilitate compliance with state and federal water quality standards. In its SFY 2007 Intended Use Plan (IUP), the State identified short-term and long term goals and objectives to be achieved in SFY 2007.

The following is a compendium of the progress the CWSRF Loan Program made toward achieving these goals and objectives during SFY 2007.

#### A. Short –Term Goals

(ST1) Seek the immediate award of the capitalization grant for the FFY 2007. Since the State has disbursed sufficient loan proceeds to enable it to draw all of the capitalization grants through and including those related to FFY 2007, capitalization grants will be deposited into the CWSRF in SFY 2007. The State expects that all capitalization grants, through and including that related to FFY 2007, will be converted to cash as expenditures are incurred or paid.

**The CWSRF Loan Program made timely application for the 2007 Capitalization Grant, which was awarded on April 11, 2007.**

(ST2) Work diligently with Participants and effectively manage Proposed Projects to assist Participants in closing loans and constructing their projects in a timely, efficient manner. This is done by communication with communities, setting up schedules and following up with their engineers and financial staff.

**“Streamlining” continues to be the key word for SFY 2007. The CWSRF Loan Program provided timely contact with participants, and allowed us to follow-up and contact Participants when due dates were drawing near. The use of work plans has also enabled the CWSRF Loan Program to more efficiently complete the technical review process. Additionally, SOP’s were implemented and a questionnaire was distributed to communities following meetings to provide feedback on the SRF Loan Program.**

(ST3) Inspect at least thirty-six (36) CWSRF financed projects in accordance with the CWSRF Loan Program’s inspection procedure and document the progress of CWSRF financed projects, including the construction phase and the post-construction or substantial completion phase.

**During SFY 2007, the CWSRF Loan Program conducted 41 inspections. Often, for larger cities, several Projects are inspected at one site visit. For example, in Indianapolis the CWSRF Loan Program may inspect multiple projects in one**

**inspection.**

(ST4) Document the environmental benefits derived from CWSRF financed projects using the one-page forms sanctioned by EPA.

**As loans are closed, the CWSRF Loan Program documents the environmental benefits of each of its projects. The environmental benefits are derived from the PER or the environmental document on a quarterly basis. Communities are being asked now to include language that also provides the basis for need by stating the environmental benefit of their project.**

(ST5) Develop a plan to promote the CWSRF Loan Program to specific Participants such as those with combined sewer overflows, enforcement issues, or those with or nearing a sewer ban. A review of the application or PER submittal will identify impaired waterways within the watershed. Information presented at the project planning meeting will aid the community and consultant in their planning.

**The SRF Loan Program coordinates state and federal programs to identify ways the SRF Loan Program may provide assistance to Indiana communities. For example, the SRF Loan Program serves on the Rural Wastewater Task Force and the Environmental Infrastructure Work Group where we have the opportunity to provide input and offer financing options to communities.**

(ST6) Provide state match for the 319 program from recycled CWSRF loan repayments.

**In an effort to provide assistance to the 319 Program, we have worked with existing communities on projects that meet the goals of the Indiana Non Point Source Management Plan.**

(ST7) Continue working with the various wastewater infrastructure financing agencies to coordinate the financing of wastewater infrastructure in the most beneficial way for Participants, while continuing to meet the needs and requirements of each financial assistance program.

**The CWSRF Loan Program meets monthly with other infrastructure groups to provide the best possible service to communities seeking both funding and assistance.**

(ST8) Finalize the Clean Water Standard Operating Procedures (CWSOP's) including administrator, environmental, financial and technical reviews.

**The CWSRF Loan Program continues to revise and improve SOP's to clarify procedures as they may change. This past State Fiscal Year we updated SOP's regarding PER approval, categorical exclusion, annual reports, NIMS and Intended Use Plan processes.**

(ST9) Evaluate the use of project work plans to improve workflow and increase the efficiency of staff time.

**Work plans have proved very effective in managing projects and providing an opportunity to set aside time for review on projects. Keeping projects on track helps all parties maintain contact and keeps the approval process moving toward project approval.**

(ST10) If necessary, issue bonds for SRF Loan Program Pooled Program should the traditional SRF financing become unavailable to communities needing SRF funds.

**The SRF Loan Program issued the first Pooled Program loans for the Clean Water Program in SFY 2007. SRF closed on 3 Pooled Program loans totaling \$26,413,000.**

(ST11) Provide \$250,000 for the Small System Technical Assistance Fund from the State's Supplemental Clean Water and Drinking Water Assistance Fund's recycled loan repayments. The SSTAF grant assists small systems applying for CWSRF loans with the costs of planning and design related to the funded Proposed Project.

**Nine Participants who were offered a SSTAF Grant received funding. Each Participant completed the SRF Loan Program process and closed a SRF Loan with the Program. A total of \$225,000 was disbursed in SFY 2007.**

## B. Long-Term Goals and Objectives

(LT1) Maintain the financial integrity of the CWSRF over time by a judicious use of its assets and by realizing an adequate rate of return to sustain the CWSRF Fund in perpetuity.

**The CWSRF Loan Program continues to utilize its funds to maintain its financial integrity.**

(LT2) Continue publication of the SRF Newsletter, which is distributed to Participants, political subdivisions, consulting engineers, financial advisors and other targeted audiences to advise them of program changes and opportunities.

**The Newsletter highlights success stories, provides information and educates readers regarding new updates. Positive feedback has been received. SRF will continue to publish the Newsletter on a quarterly basis.**

(LT3) Continue to work with the IDEM's wet weather section to facilitate the elimination of combined sewer overflows.

**At the time a Participant enters the CWSRF Loan Program, CWSRF Loan Program Staff initiates early coordination with the Department to expedite project review and coordination.**

(LT4) Continue to find ways to streamline the CWSRF Loan Program process. Streamlining the process enables the CWSRF Loan Program to provide added benefits in the form of reduced costs, less review time and a better project.

**SRF continues to streamline the Program by reduced review time, early coordination with communities, timely review and increased financial overview.**

(LT5) Contact the Non Point Source program with projects in-house to see if there is an added benefit from an SRF project to a NPS project that is in-house.

**The SRF Loan Program continues to work with IDEM's NPS Section to identify projects that may benefit from a NPS component.**

(LT6) Utilize the Clean Watershed Need Survey information database when a new application is received and use this information to confirm the need of the project as well as providing input to the scoring of the project.

**An effort is underway to utilize the CWNS information and incorporate that information into the SRF Loan Program for the State of Indiana. The CWNS information is unavailable to the SRF Loan Program while EPA updates the database. These new updates should make it easier to assess information on communities and track changes to their needs and requests.**

Exhibit C

**Wastewater (WW)**

<b>Applicant Name</b>	<b>Closing Date</b>	<b>Loan Amount</b>	<b>Estimated Open Market Interest Rate</b>	<b>Estimated Open Market P &amp; I</b>	<b>SRF Interest Rate</b>	<b>SRF P &amp; I</b>	<b>SRF Savings</b>
<b>SFY 2007</b>							
Churubusco	31-Jul-06	\$840,000	5.00%	\$ 1,348,075	3.70%	\$ 1,203,559	\$ 144,517
Tell City	17-Aug-06	\$1,425,000	5.00%	\$ 2,286,914	3.45%	\$ 1,996,229	\$ 290,685
Hartsville	9-Oct-06	\$386,000	5.00%	\$ 619,473	3.15%	\$ 526,128	\$ 93,345
Alexandria	17-Nov-06	\$400,000	5.00%	\$ 641,941	2.90%	\$ 532,766	\$ 82,400
Liberty	27-Nov-06	\$5,600,000	5.25%	\$ 9,178,656	2.65%	\$ 7,286,670	\$ 1,891,986
Mt. Vernon	29-Nov-06	\$400,000	5.25%	\$ 655,618	2.90%	\$ 532,766	\$ 122,852
Columbia City	15-Dec-06	\$6,928,000	4.50%	\$ 10,651,959	2.90%	\$ 9,227,514	\$ 1,424,444
Union City	15-Dec-06	\$1,720,000	5.00%	\$ 2,760,345	2.85%	\$ 2,280,273	\$ 480,072
Indianapolis	15-Dec-06	\$34,750,000	4.50%	\$ 53,428,920	2.90%	\$ 46,284,083	\$ 7,144,837
Columbus	15-Dec-06	\$27,449,000	4.50%	\$ 42,203,466	3.65%	\$ 39,152,947	\$ 3,050,518
Centerville	15-Dec-06	\$3,400,000	5.25%	\$ 5,572,755	2.65%	\$ 4,424,050	\$ 1,148,705
Aurora	15-Dec-06	\$4,000,000	5.25%	\$ 6,556,183	2.65%	\$ 5,204,764	\$ 1,351,418
New Albany	29-Dec-06	\$1,280,000	5.00%	\$ 2,054,210	3.95%	\$ 1,875,362	\$ 178,848
Cloverdale	31-Jan-07	\$720,000	5.00%	\$ 1,155,493	3.95%	\$ 1,054,891	\$ 100,602
Wolcott	30-May-07	\$688,000	5.25%	\$ 1,127,663	4.39%	\$ 1,047,757	\$ 79,906
Greensburg	30-May-07	\$8,500,000	5.25%	\$ 13,931,888	4.39%	\$ 12,944,673	\$ 987,215
Hammond	30-May-07	\$17,225,000	5.25%	\$ 28,232,562	4.14%	\$ 25,664,154	\$ 2,568,407
<b>Total WW</b>		<b>\$115,711,000</b>				<b>Total WW Savings</b>	<b>\$ 21,140,757</b>



**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**COMBINED FINANCIAL STATEMENTS**

June 30, 2007 and 2006

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**KATZ, SAPPER & MILLER**  
Certified Public Accountants



**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
Indianapolis, Indiana**

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## INDEPENDENT AUDITORS' REPORT

Members of the State Revolving Fund Loan Programs  
(Enterprise Fund of the Indiana Finance Authority)  
Indianapolis, Indiana

We have audited the accompanying combined financial statements of the State Revolving Fund Loan Programs, an enterprise fund of the Indiana Finance Authority, as of and for the years ended June 30, 2007 and 2006, presented on pages 8-31. These combined financial statements are the responsibility of the Programs' management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the combined financial statements present only the State Revolving Fund Loan Programs, an enterprise fund, and do not purport to, and do not, present fairly the financial position of the Indiana Finance Authority as of June 30, 2007 and 2006, and the changes in its financial position or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the State Revolving Fund Loan Programs at June 30, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

The Management's Discussion and Analysis presented on pages 3-7 is not a required part of the basic combined financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2007, on our consideration of the State Revolving Fund Loan Programs' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

*Katz, Sargent & Miller, LLP*

Indianapolis, Indiana  
September 25, 2007

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")  
June 30, 2007**

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As management of the State Revolving Fund Loan Programs (the SRF Programs), we offer readers of the SRF Programs' combined financial statements this narrative overview of Management's Discussion and Analysis (MD&A) of the financial activities of the SRF Programs for the fiscal year ended June 30, 2007. All amounts, unless otherwise indicated, are expressed in thousands of dollars and are approximate.

**Financial Highlights:** The SRF Programs' total net assets increased by \$60.1 million during the current fiscal year from \$762.2 million to \$822.3 million. Of this amount, \$37.0 million consists of capital contributions (grants) from EPA. All of these net assets are restricted for water pollution and drinking water projects and related program purposes.

The SRF Programs' debt increased by \$161.4 million during the current fiscal year. The net increase in debt is the result of proceeds of \$214.2 million related to the issuance of new Series 2006B and 2007A bonds during the current fiscal year. New debt was offset, in part, by scheduled principal payments on the SRF programs outstanding debt totaling \$60.7 million.

The SRF Programs disbursed \$355.5 million to participants during the current year to fund project expenses. Loans receivable can be found in Note 3 to the combined financial statements on page 17 of this report.

**BASIC COMBINED FINANCIAL STATEMENTS**

This MD&A is intended to serve as an introduction to the SRF Programs' basic combined financial statements (Report). The accompanying Report only provides information on the financial activities associated with the SRF Programs which are an enterprise fund of the Indiana Finance Authority, where financial transactions are reported as business-type activities. The basic combined financial statements do not represent a comprehensive annual financial report of the Indiana Finance Authority.

Enterprise funds are used to report any activities for which income fees are charged to external users for goods and services. In addition, enterprise funds must be used in situations where debt is backed solely by fees and charges. An enterprise fund is accounted for in a manner similar to a commercial enterprise on the accrual basis of accounting.

The SRF Programs' basic combined financial statements include statements of net assets, statements of revenues, expenses and changes in net assets, statements of cash flows, and the notes to the financial statements. These combined financial statements can be found on pages 8-10 of this report and are summarized below:

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(Continued)

STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")  
June 30, 2007

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- The *combined statements of net assets* present information on all of the SRF Programs' assets and liabilities, with the difference between the two reported as net assets.
- The *combined statements of revenues, expenses and changes in net assets* present information showing how the SRF Programs' net assets changed during each year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.
- In contrast, the *combined statements of cash flows* are concerned solely with flows of cash and cash equivalents. Transactions are recorded when cash is received or exchanged, without concern of when the underlying event causing the transactions occurred.

The Report also contains other supplementary information in addition to the basic combined financial statements themselves.

The notes to the combined financial statements provide additional information that is essential to a full understanding of the data provided in the combined financial statements. The notes to the combined financial statements can be found on pages 11-31 of this report.

In addition to the basic combined financial statements and accompanying notes, this report also presents combining schedules on pages 33-35. These combining schedules are not a required part of the basic combined financial statements, but they provide detailed financial statement information for each individual program. The combining schedules are included to provide other useful information for the readers of the basic combined financial statements.

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(Continued)

**STATE REVOLVING FUND LOAN PROGRAMS**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")**  
**June 30, 2007**

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**FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of the government enterprise's financial position. In the case of the SRF Programs, assets exceeded liabilities by \$822.3 million at the close of the most recent fiscal year.

**State Revolving Fund Loan Programs' Net Assets**  
(In Thousands of Dollars)

	2007	June 30, 2006	2005
Current assets	\$ 596,690	\$ 739,384	\$ 641,163
Noncurrent assets	<u>2,055,030</u>	<u>1,683,102</u>	<u>1,535,830</u>
Total Assets	<u>2,651,720</u>	<u>2,422,486</u>	<u>2,176,993</u>
Current liabilities	105,295	90,916	76,018
Long-term liabilities	<u>1,724,123</u>	<u>1,569,321</u>	<u>1,397,141</u>
Total Liabilities	<u>1,829,418</u>	<u>1,660,237</u>	<u>1,473,159</u>
Net Assets			
Restricted	<u>822,302</u>	<u>762,249</u>	<u>703,834</u>
Total Net Assets	<u>\$ 822,302</u>	<u>\$ 762,249</u>	<u>\$ 703,834</u>

Total assets have increased over the years as the SRF Programs continue to mature, manage new and existing projects, and receive new grants. As new and existing projects are undertaken and completed, additional bonds on behalf of the SRF Programs are issued in order to fund the projects. Therefore, long-term liabilities have also increased to meet the needs of participants.

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(Continued)

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")**  
**June 30, 2007**

**State Revolving Fund Loan Programs' Changes in Net Assets**  
**(In Thousands of Dollars)**

	2007	Years Ended June 30, 2006	2005
Operating Revenues			
Interest-investments	\$ 62,712	\$ 60,573	\$ 43,400
Interest-participants	43,767	36,992	32,843
Other	731	501	720
Total Operating Revenues	<u>107,210</u>	<u>98,066</u>	<u>76,963</u>
Operating Expenses			
Interest	80,814	69,301	67,536
Amortization of deferred charges	1,168	1,014	1,196
Trustee fees	320	999	1,198
Other program and administrative	1,837	1,620	2,474
Total Operating Expenses	<u>84,139</u>	<u>72,934</u>	<u>72,404</u>
Operating Income	23,071	25,132	4,559
Capital Contributions (EPA Grants)	<u>36,982</u>	<u>33,283</u>	<u>34,715</u>
Increase in Net Assets	60,053	58,415	39,274
Net Assets			
Beginning of Year	<u>762,249</u>	<u>703,834</u>	<u>664,560</u>
End of Year	<u>\$ 822,302</u>	<u>\$ 762,249</u>	<u>\$ 703,834</u>

The SRF Programs' net assets increased by \$60.1 million during the current fiscal year. Key elements of this increase are as follows:

- The SRF Programs received \$37.0 million in capital contributions (grants) from EPA to further capitalize the SRF programs.
- Interest income on investments and loans increased \$8.9 million from the prior year.

(Continued)

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")**  
**June 30, 2007**

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**DEBT ADMINISTRATION**

Long-term Debt: At the end of the current fiscal year, the SRF Programs' debt, net of premium/discount and unamortized loss on refunding, was \$1.79 billion. The amount due represents bonds issued solely for the State Revolving Fund Loan Programs. By operation of law, effective May 15, 2005, the outstanding bonds of the Indiana Bond Bank related to the SRF Programs became the obligations of the Authority instead of the Indiana Bond Bank. For years ended on, or before, June 30, 2005, these obligations were previously reported as *Due to Indiana Bond Bank* liabilities of the SRF Programs. For the comparative combined financial statements for the years ended June 30, 2007 and 2006, such obligations are reported as bonds payable of the SRF Programs.

**State Revolving Fund Loan Programs' Outstanding Debt**  
**(In Thousands of Dollars)**

	<b>Years Ended June 30,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Net Bond Indebtedness	\$ 1,791,021	\$ 1,629,658	\$ 1,443,836

The SRF Programs' debt increased by \$161 million during the current fiscal year. The net increase in debt is the result of proceeds of \$214 million related to the issuance of new Series 2006B and 2007A bonds during the current fiscal year. New debt was offset, in part, by scheduled principal payments on outstanding SRF program debt totaling \$61 million.

Additional information on the SRF Programs' long-term debt can be found in Notes 7 and 8 to the combined financial statements on pages 21-30 of this report.

**REQUESTS OF INFORMATION**

This financial report is designed to provide a general overview of the SRF Programs' finances for all those with an interest in the SRF Programs' finances. Questions concerning any of the information should be addressed to the State Revolving Fund Wastewater and Drinking Water Loan Programs, 100 N. Senate Avenue, Room 1275, IGCN - 12th Floor, Indianapolis, IN 46204.

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(Continued)



**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**COMBINED STATEMENTS OF NET ASSETS  
June 30, 2007 and 2006**

	2007	2006
<b>ASSETS</b>		
Current Assets:		
Cash and equivalents	\$ 463,526,882	\$ 624,323,282
Interest receivable	30,500,812	28,868,400
Due from EPA	36,588,816	31,492,895
Loans receivable	66,073,269	54,699,467
Total Current Assets	<u>596,689,779</u>	<u>739,384,044</u>
Noncurrent Assets:		
Investments	656,309,266	569,784,824
Loans receivable	1,388,894,252	1,103,928,196
Equipment, net	11,157	-
Deferred charges, net	9,815,253	9,389,437
Total Noncurrent Assets	<u>2,055,029,928</u>	<u>1,683,102,457</u>
Total Assets	<u>2,651,719,707</u>	<u>2,422,486,501</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Interest payable	35,592,922	30,025,939
Accounts payable	227,398	220,211
Bonds payable-current, net	69,475,000	60,670,000
Total Current Liabilities	<u>105,295,320</u>	<u>90,916,150</u>
Long-term Liabilities:		
Amount due to federal government	2,577,248	333,000
Bonds payable, net	1,721,545,562	1,568,988,127
Total Long-term Liabilities	<u>1,724,122,810</u>	<u>1,569,321,127</u>
Total Liabilities	<u>1,829,418,130</u>	<u>1,660,237,277</u>
<b>NET ASSETS</b>		
Restricted for water pollution and drinking water projects and other related program purposes	<u>\$ 822,301,577</u>	<u>\$ 762,249,224</u>

*See accompanying notes.*

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
Years Ended June 30, 2007 and 2006**

	2007	2006
<b>OPERATING REVENUE</b>		
Interest income-investments	\$ 62,711,670	\$ 60,572,534
Interest income-loan participants	43,767,242	36,992,165
Other	730,636	501,438
Total Operating Revenue	<u>107,209,548</u>	<u>98,066,137</u>
<b>OPERATING EXPENSES</b>		
Interest	80,813,864	69,300,623
Amortization of deferred charges	1,167,790	1,013,570
Trustee fees	320,600	999,452
Other program and administrative	1,837,166	1,620,527
Total Operating Expenses	<u>84,139,420</u>	<u>72,934,172</u>
<b>OPERATING INCOME</b>	23,070,128	25,131,965
<b>CAPITAL CONTRIBUTIONS</b>	<u>36,982,225</u>	<u>33,283,045</u>
<b>INCREASE IN NET ASSETS</b>	60,052,353	58,415,010
<b>NET ASSETS</b>		
Beginning of Year	<u>762,249,224</u>	<u>703,834,214</u>
End of Year	<u><u>\$ 822,301,577</u></u>	<u><u>\$ 762,249,224</u></u>

*See accompanying notes.*

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**COMBINED STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2007 and 2006**

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash payments for salaries, administrative and other expenses	\$ (1,457,943)	\$ (2,122,694)
Administration fee	38,000	27,000
Net Cash (Used) by Operating Activities	<u>(1,419,943)</u>	<u>(2,095,694)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Maturities of loans to participants	59,173,050	49,855,891
Issuance of loans to participants	(355,512,908)	(170,931,017)
Change in investments	(86,524,442)	(41,431,033)
Interest received on loans and investments	104,846,500	96,963,587
Purchase of capital assets	(11,157)	
Net Cash (Used) by Investing Activities	<u>(278,028,957)</u>	<u>(65,542,572)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Proceeds from debt issuance	214,160,000	512,249,918
Principal payments to reduce indebtedness including refunding	(52,797,565)	(326,428,069)
Payment of debt issuance costs, net of refunding	(1,593,606)	794,313
Change in amount due to federal government	2,244,248	333,000
Interest paid on debt	(75,246,881)	(68,400,239)
Net Cash Provided by Non-Capital Financing Activities	<u>86,766,196</u>	<u>118,548,923</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Capital contributions (EPA grants)	31,886,304	1,790,150
Net Cash Provided by Capital Financing Activities	<u>31,886,304</u>	<u>1,790,150</u>
<b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	(160,796,400)	52,700,807
<b>CASH AND EQUIVALENTS</b>		
Beginning of Year	<u>624,323,282</u>	<u>571,622,475</u>
End of Year	<u>\$ 463,526,882</u>	<u>\$ 624,323,282</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 23,070,128	\$ 25,131,965
Adjustments to reconcile operating income to net cash used by operating activities:		
Interest income	(106,478,912)	(97,564,699)
Interest expense	80,813,864	69,300,623
Amortization of deferred charges	1,167,790	1,013,570
Changes in assets and liabilities:		
Accounts payable	7,187	22,847
Net Cash (Used) by Operating Activities	<u>\$ (1,419,943)</u>	<u>\$ (2,095,694)</u>

See accompanying notes.

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
Years Ended June 30, 2007 and 2006**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Wastewater State Revolving Fund Loan Program (WSRF) and the Drinking Water State Revolving Fund Loan Program (DWSRF), collectively known as the State Revolving Fund Loan Programs (the SRF Programs), conform to generally accepted accounting principles as applicable to governmental units in the United States. The following is a summary of significant policies:

Reporting Entity: The accompanying combined financial statements report only on the financial activities associated with the SRF Programs, which are an enterprise fund of the Indiana Finance Authority (Authority). The combined financial statements do not represent a comprehensive annual financial report of the Authority.

Principles of Combination: The combined financial statements of the Programs include the accounts of the WSRF and the DWSRF. All significant accounts and transactions between the individual programs have been eliminated.

Basis of Presentation and Accounting: The Programs are accounted for as enterprise funds. An enterprise fund is used to account for an operation where periodic determination of revenues earned, expenses incurred, and net income on an accrual basis is appropriate (accrual method). Accordingly, the SRF Programs recognize revenues in the period earned and expenses in the period incurred. Financial transactions are reported as business-type activities.

The SRF Programs follow the accounting rules promulgated by the Governmental Accounting Standards Board (GASB). Additionally, the SRF Programs follow all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless the pronouncements conflict with or contradict GASB Statements.

The Wastewater State Revolving Fund Loan Program and Drinking Water State Revolving Fund Loan Program: The federal Water Quality Act of 1987 as amended in 1996 authorized the United States Environmental Protection Agency (EPA) to award capitalization grants to states for public drinking water system programs and water pollution control revolving fund programs. Pursuant to Indiana Code 13-18-13 (WSRF Act), the State of Indiana (State) originally established a water pollution control revolving fund program to provide financial assistance, essentially to make loans, to political subdivisions for eligible projects. A variety of political subdivisions and other eligible borrowers may receive loans from the WSRF Program, including municipal sewage works, sanitary districts, regional sewer districts and conservancy districts. Pursuant to Indiana Code 13-18-21 (DWSRF Act), the State also established a public drinking water system program to provide financial assistance for eligible projects. Financial assistance includes making loans to public water systems for eligible projects, as well as providing for administrative expenses, source water assessment and technical assistance for small systems.

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(Continued)

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**Years Ended June 30, 2007 and 2006**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

By operation of law, effective May 15, 2005, all assets and liabilities of the SRF Programs (including the outstanding bonds of the Indiana Bond Bank related to the SRF Programs) became the assets and liabilities of the Indiana Finance Authority instead of the State or the Indiana Bond Bank. For years ended on, or before, June 30, 2005, these assets and liabilities of the SRF Programs were previously reported as part of the respective financial statements of the State and/or the Indiana Bond Bank. For the comparative financial statements for the years ended June 30, 2007 and 2006, such are reported as the Authority's assets and liabilities related to the SRF Programs.

The Authority has capitalized its WSRF and DWSRF Programs with payments made by EPA under capitalization grants and with required state matching funds. Payments under, and the use of capitalization grants, are subject to federal law and regulated by the federal government, acting through the EPA.

Under the WSRF and DWSRF Acts, the Authority has responsibility for the administration and management of the WSRF and DWSRF Programs. The Authority has entered into Trust Indentures with The Bank of New York Trust Company, N.A., successor to J.P. Morgan Trust Company, N.A., to establish a series of separate accounts to hold the funds of the SRF Programs. The indentures create state revolving funds (the Funds) and govern the use of certain bond proceeds and EPA capitalization grants pursuant to the WSRF Act and the DWSRF Act. The SRF Programs are being operated initially as leveraged programs, whereby the earnings on certain moneys deposited in the Funds and payments on loans made from the Funds, are applied to pay debt service on bonds issued by the SRF Programs.

The capitalization grants are deposited into the Funds and are available to pay for the debt service on bonds issued by the SRF programs. In addition, interest earned on the investment of program funds is used to help meet the debt service obligations. The State is required to deposit into the Funds an amount equal to 20 percent of the federal capitalization grant as matching funds in order to receive a grant. These matching funds have been provided through the issuance of revenue bonds payable from the earnings on the Funds. EPA capitalization grants are recognized as capital contributions when received. The Authority may use amounts of up to 4 percent of each federal capitalization grant to pay salaries and administrative costs incurred.

The Indiana Bond Bank, on behalf of the SRF Programs, issued Series 1997A, 1998A, 2000A, 2000B, 2001A, 2002A, 2002B, 2004A, 2004B and 2004C Bonds, which by operation of law effective May 15, 2005, such liabilities of the SRF Programs became the liabilities of the Authority instead of the Indiana Bond Bank. Additionally, the Authority issued Series 2005A, 2006A, 2006B and 2007A Bonds to provide additional capital for the SRF Programs. Such liabilities are summarized in Note 8 on page 30 and are secured by a common trust estate supported in part by participant loan repayments.

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(Continued)

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
Years Ended June 30, 2007 and 2006**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Estimates: Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Restricted Net Assets: Restricted net assets are available for providing financial assistance related to water pollution control and drinking water projects and other program purposes.

Cash and Equivalents: Cash and equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments: Investments are recorded at fair value, based on quoted market prices of the investment or similar investments. For investments at June 30, 2007 and 2006, fair value approximated cost. Changes in the fair value of investments are included in the combined statement of revenues, expenses and changes in net assets.

Operating Revenues and Expenses: Operating revenues and expenses generally result from providing services. Operating expenses include the cost of providing services and interest on debt. For enterprise funds, revenue and expense transactions normally classified as other than operating cash flows are classified as operating revenues and expenses if those transactions constitute principal ongoing operations. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses, and include capital contributions.

Reclassifications: Certain amounts in the 2006 combined financial statements have been reclassified to conform to the 2007 presentation.

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(Continued)

STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
Years Ended June 30, 2007 and 2006

NOTE 2 - CASH AND INVESTMENTS

All cash and investments are held by, or in the name of, The Bank of New York Trust Company, N.A., as trustee under certain indentures of trusts (Trust Indentures) pertaining to the SRF Programs and the bonds issued in connection with the SRF Programs. Pursuant to enabling statutes, the investments permitted by the Trust Indentures represent investment policy choices that make the generally applicable provisions of Indiana Code 5-13 inapplicable to the SRF Programs' investments.

For investments at June 30, 2007 and 2006, fair value approximates cost. A summary of cash and investments as of June 30, 2007 and 2006 follows:

	<u>2007</u>		
	<u>Wastewater</u>	<u>Drinking Water</u>	<u>Total</u>
Money market funds	\$ 407,331,366	\$ 56,195,516	\$ 463,526,882
Guaranteed investment contracts	540,927,400	108,092,866	649,020,266
Government obligations	<u>1,639,000</u>	<u>5,650,000</u>	<u>7,289,000</u>
	<u>\$ 949,897,766</u>	<u>\$ 169,938,382</u>	<u>\$1,119,836,148</u>
	<u>2006</u>		
	<u>Wastewater</u>	<u>Drinking Water</u>	<u>Total</u>
Money market funds	\$ 570,652,627	\$ 53,670,655	\$ 624,323,282
Guaranteed investment contracts	453,831,243	108,664,581	562,495,824
Government obligations	<u>1,639,000</u>	<u>5,650,000</u>	<u>7,289,000</u>
	<u>\$1,026,122,870</u>	<u>\$ 167,985,236</u>	<u>\$1,194,108,106</u>

(Continued)

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**Years Ended June 30, 2007 and 2006**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

Investment Type and Interest Rate Risk Disclosure: As of June 30, 2007, the SRF Programs had the following investments and maturities (amounts are in thousands):

	Wastewater				
	Investment Maturities (in years)				
	Fair Value	< 1	1 - 6	6 - 10	> 10
Money market funds	\$ 407,331	\$ 407,331			
Guaranteed Investment contracts	540,928	7,603	\$ 51,744	\$ 205,290	\$ 276,291
Government obligations	<u>1,639</u>			<u>405</u>	<u>1,234</u>
	<u>\$ 949,898</u>	<u>\$ 414,934</u>	<u>\$ 51,744</u>	<u>\$ 205,695</u>	<u>\$ 277,525</u>

	Drinking Water				
	Investment Maturities (in years)				
	Fair Value	< 1	1 - 6	6 - 10	> 10
Money market funds	\$ 56,195	\$ 56,195			
Guaranteed Investment contracts	108,093	4,645	\$ 26,530	\$ 20,611	\$ 56,307
Government obligations	<u>5,650</u>		<u>500</u>	<u>5,150</u>	
	<u>\$ 169,938</u>	<u>\$ 60,840</u>	<u>\$ 27,030</u>	<u>\$ 25,761</u>	<u>\$ 56,307</u>

Credit Risk Disclosure: The following table (in thousands of dollars) provides information on the credit ratings associated with the SRF Programs' investments in debt securities, excluding obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government at June 30, 2007:

	S&P	Fitch	Moody's	Fair Value
Money market funds	AAAm	AAA	Aaa/V-1+	\$ 463,527
Guaranteed investment contracts	AAA	AAA	Aaa	255,280
	AA	AA	Aa2	358,435
	AA	AA+	Aa1	35,305
Government obligations	AAA	AAA	Aaa	<u>7,289</u>
Total Rated Investments				<u>\$ 1,119,836</u>

(Continued)



**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**Years Ended June 30, 2007 and 2006**

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**NOTE 2 - CASH AND INVESTMENTS (Continued)**

**Custodial Credit Risk:** The SRF Programs have no custodial credit risk. The investments are secured by government securities held pursuant to securities or repurchase contracts or otherwise secured by a perfected security interest in the same. Such government securities are either issued or guaranteed by the United States Government, including United States Treasury obligations and any other obligations the timely payment of principal and interest of which are guaranteed by the United States Government and bonds, notes, debentures, obligations or other evidence of indebtedness issued and/or guaranteed by Fannie Mae, Federal Home Loan Mortgage Corporation, Government National Mortgage Association or any other agency or instrumentality of the United States of America, including, but not limited to, mortgage participation certificates, mortgage pass-through certificates, collateralized mortgage obligations and other mortgage-backed securities.

**Concentration of Credit Risk:** The Program places no limit on the amount the SRF Programs may invest in any one issuer. The following table shows investments in issuers that represent 5% or more of the total investments at June 30, 2007:

	Wastewater	Drinking Water
JP Morgan Prime Money Market Fund	43%	33%
AIG Matched Funding Corp. GIC	32%	30%
FSA Capital Management GIC	10%	2%
Trinity Plus Funding Company, LLC GIC	12%	28%

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(Continued)

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
Years Ended June 30, 2007 and 2006**

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**NOTE 3 - LOANS RECEIVABLE**

The net proceeds from the issuance of the Bonds were deposited in the Purchase Account and are used primarily to fund loans to participants for eligible projects. The State's current intended use plans include a list of publicly-owned wastewater treatment works, a list of drinking water systems, and other projects proposed by eligible participants, which the State anticipates will be eligible for financial assistance.

The loans receivable balance at June 30, 2007 and 2006 includes actual advances for construction and related costs on eligible projects net of principal repayments from participants as follows:

	Loans Receivable as of June 30, 2007	Loans Receivable as of June 30, 2006	Actual Loan Available Less Principal Repayments as of June 30, 2007
Wastewater Fund	\$ 1,219,674,122	\$ 970,432,561	\$ 1,423,823,969
Drinking Water Fund	<u>235,293,399</u>	<u>188,195,102</u>	<u>254,220,118</u>
Total All Loans	<u>\$ 1,454,967,521</u>	<u>\$ 1,158,627,663</u>	<u>\$ 1,678,044,087</u>

These amounts represent projects that have been submitted and approved by the SRF Programs, and for which loans have been closed. Loans receivable includes current portions of \$66,073,269 at June 30, 2007 and \$54,699,467 at June 30, 2006.

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(Continued)

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**Years Ended June 30, 2007 and 2006**

**NOTE 3 - LOANS RECEIVABLE (Continued)**

As of June 30, 2007, the outstanding balances of closed loans exceeding 50 percent of the total loans receivable and representing the Programs' largest borrowers are summarized below:

Name of Participant	Loans Receivable as of June 30, 2007	Loans Receivable as of June 30, 2006	Actual Loan Available Less Principal Repayments as of June 30, 2007
<b>Wastewater Fund</b>			
City of Indianapolis	\$ 279,133,530	\$ 179,430,358	\$ 372,538,000
City of Lafayette	60,962,080	62,360,321	60,985,000
City of Fort Wayne	44,837,726	27,597,668	59,561,000
City of Evansville	55,892,510	15,969,500	55,892,510
City of Hammond	45,242,304	28,258,932	48,350,000
City of West Lafayette	27,779,807	25,663,780	45,015,000
City of Mishawaka	36,394,224	30,537,455	40,591,000
City of New Albany	37,799,000	37,018,520	37,799,000
City of Muncie	24,529,466	14,235,371	30,048,000
<b>Drinking Water Fund</b>			
City of Fort Wayne	31,900,000	-	31,900,000
City of Bloomington	21,680,000	22,393,000	21,680,000
City of Mishawaka	19,482,271	21,012,271	19,575,000
City of East Chicago	18,290,000	18,370,000	18,290,000
City of Jasper	11,974,000	12,625,000	11,974,000
City of Huntingburg	6,808,000	7,166,000	6,808,000
Town of Syracuse	4,284,420	396,682	6,533,000
City of Michigan City	6,214,916	6,269,916	6,214,916

(Continued)

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**Years Ended June 30, 2007 and 2006**

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**NOTE 4 - INTEREST RECEIVABLE**

Interest receivable consists of accrued interest income on investments and accrued interest payments on loans to participants as follows:

Interest Receivable at June 30, 2007:

	Investments	Loans	Total
Wastewater	\$ 13,296,924	\$ 13,130,810	\$ 26,427,734
Drinking Water	<u>2,483,859</u>	<u>1,589,219</u>	<u>4,073,078</u>
	<u>\$ 15,780,783</u>	<u>\$ 14,720,029</u>	<u>\$ 30,500,812</u>

Interest Receivable at June 30, 2006:

	Investments	Loans	Total
Wastewater	\$ 12,701,110	\$ 11,616,459	\$ 24,317,569
Drinking Water	<u>2,292,638</u>	<u>2,258,193</u>	<u>4,550,831</u>
	<u>\$ 14,993,748</u>	<u>\$ 13,874,652</u>	<u>\$ 28,868,400</u>

**NOTE 5 - DEFERRED CHARGES, NET**

Deferred charges represent bond issuance costs which are being amortized using the interest method over the life of the related bond issue. Accumulated amortization was \$6,406,109 and \$5,238,319 at June 30, 2007 and 2006, respectively. The net unamortized deferred charges were \$9,815,253 and \$9,389,437 at June 30, 2007 and 2006, respectively. Future amortization of deferred charges is as follows:

June 30, 2008	\$ 1,128,490
June 30, 2009	1,041,906
June 30, 2010	948,333
June 30, 2011	860,746
June 30, 2012	773,565
Thereafter	<u>5,062,213</u>
	<u>\$ 9,815,253</u>

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(Continued)

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**Years Ended June 30, 2007 and 2006**

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**NOTE 6 - ARBITRAGE REBATE AND YIELD REDUCTION PAYMENTS TO U.S. TREASURY**

Several series of bonds issued by the Indiana Bond Bank, succeeded by the Authority, in connection with the SRF Programs were the subject of legal opinions as of the date of their issuance to the effect that interest on such bonds was excludable from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended ("Code"). Under the Code, such exclusion is conditioned on continuing compliance with certain tax covenants including payment of certain earnings in excess of the bond yield to the U.S. Treasury as rebate or yield reduction payments. The estimated liabilities, which were calculated as of January 31, 2007, are recorded in the general long-term debt account group. With respect to such bonds, as of June 30, 2007, the SRF Programs had the following liabilities:

	<b>Yield Reduction</b>	<b>Due Date</b>
<b>2000A</b>		
Wastewater Fund	\$ 501,085	January 31, 2010
Drinking Water Fund	87,665	January 31, 2010
<b>2005A</b>		
Wastewater Fund	6,721	January 31, 2010
Drinking Water Fund	2,511	January 31, 2010
<b>2006A</b>		
Wastewater Fund	1,821,321	January 31, 2011
Drinking Water Fund	<u>157,945</u>	January 31, 2011
	<u><u>\$ 2,577,248</u></u>	

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(Continued)

STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
Years Ended June 30, 2007 and 2006

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**NOTE 7 – BONDS PAYABLE**

Bonds payable at June 30, 2007 and 2006 for bonds issued on behalf of the SRF Programs are summarized as follows:

	2007	2006
<u>Wastewater Fund:</u>		
Series 2007A Bonds issued May 30, 2007 for the aggregate amount of \$71,230,000, maturing from February 1, 2008 to February 1, 2025 at interest rates ranging from 4.00% to 5.00%. Of this, \$61,255,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program.	\$ 61,255,000	\$ -
Series 2006B Bonds issued December 13, 2006 for the aggregate amount of \$142,930,000, maturing from February 1, 2008 to February 1, 2028 at interest rates ranging from 3.50% to 5.50%. Of this, \$112,745,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program.	112,745,000	-
Series 2006A Bonds issued April 25, 2006 for the aggregate amount of \$221,355,000, maturing from February 1, 2007 to February 1, 2027 at interest rates ranging from 3.60% to 5.25%. Of this, \$203,760,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program.	197,740,000	203,760,000
Series 2005A Refunding Bonds issued December 7, 2005 for the aggregate amount of \$277,930,000 to refund the callable portion of Series 1997A, 1998A, 2000A, 2000B, 2001A, and 2002B Bonds, maturing from February 1, 2006 to February 1, 2029 at interest rates ranging from 3.30% to 5.25%. Of this, \$197,950,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program.	197,160,000	197,950,000

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(Continued)

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**Years Ended June 30, 2007 and 2006**

**NOTE 7 - BONDS PAYABLE (Continued)**

	2007	2006
Series 2004A Refunding Bonds issued April 7, 2004 for the aggregate amount of \$113,115,000 to refund the callable portion of the Series 1994A and 1995A Bonds, maturing from February 1, 2005 to February 1, 2012 at interest rates ranging from 1.74% to 3.98%.	\$ 73,085,000	\$ 87,315,000
Series 2004B Bonds issued April 7, 2004 for the aggregate amount of \$200,000,000, maturing from February 1, 2005 to February 1, 2025 at interest rates ranging from 2.00% to 5.00%. Of this amount, \$167,480,000 was the final allocation to the WSRF program based upon the percentage of original bond proceeds allocated to each program.	158,731,230	161,653,869
Series 2004C Bonds issued June 23, 2004 for the aggregate amount of \$200,000,000, maturing serially through February 1, 2027 at interest rates ranging from 5.00% to 5.25%.	189,445,000	194,850,000
Series 2002A Refunding Bonds issued December 23, 2002 for the aggregate amount of \$75,070,000 to refund the callable portion of the Series 1993A Bonds, maturing from February 1, 2004 to February 1, 2013 at interest rates ranging from 1.86% to 4.84%.	46,315,000	54,315,000
Series 2002B Bonds issued December 23, 2002 for the aggregate amount of \$66,695,000, maturing from February 1, 2013 to February 1, 2024 at interest rates ranging from 4.00% to 5.375%. Of this amount, \$52,422,270 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program. In December 2005, \$3,775,000 was refunded. The remaining \$48,647,003 matures from February 1, 2013 to February 1, 2024.	48,647,003	48,647,003

(Continued)

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
Years Ended June 30, 2007 and 2006**

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**NOTE 7 – BONDS PAYABLE (Continued)**

	2007	2006
Series 2001A Bonds issued October 24, 2001 for the aggregate amount of \$400,000,000, maturing from August 1, 2003 to February 1, 2023 at interest rates ranging from 3.5% to 5.5%. Of this amount, \$320,104,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program. In December 2005, \$2,885,000 was refunded. The remaining \$312,705,534 matures from February 1, 2006 to February 1, 2023.	\$ 306,971,671	\$ 312,705,534
Series 2000B Bonds issued January 9, 2001 for the aggregate amount of \$100,000,000, maturing from August 1, 2019 to August 1, 2023 at interest rates ranging from 5.00% to 5.35%. Of this amount, \$69,950,000 was allocated to the WSRF Program based upon the percentage of the original bond proceeds allocated to each program. In December 2005, \$55,244,542 was refunded. The remaining \$14,706,730 matures from August 1, 2006 to August 1, 2023.	14,706,730	14,706,730
Series 2000A Bonds issued April 25, 2000 for the aggregate amount of \$143,590,000, maturing serially through August 1, 2022 at interest rates ranging from 4.75% to 5.875%. Of this amount, \$122,197,429 was allocated to the WSRF Program based upon the percentage of the original bond proceeds allocated to each program. In December 2005, \$74,273,678 was refunded. The remaining \$32,621,513 matures from August 1, 2007 to August 1, 2012.	28,638,505	32,621,513
Series 1998A Bonds issued September 1, 1998 for the aggregate amount of \$90,000,000, maturing serially through February 1, 2020 at interest rates ranging from 4.00% to 5.00%. Of this amount, \$67,750,534 was allocated to the WSRF Program based upon the percentage of the original bond proceeds allocated to each program. In December 2005, \$25,983,504 was refunded. The remaining \$32,964,994 matures from February 1, 2006 to February 1, 2020.	30,228,625	32,964,994

(Continued)



**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**Years Ended June 30, 2007 and 2006**

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**NOTE 7 - BONDS PAYABLE (Continued)**

	2007	2006
Series 1997A Bonds issued September 1, 1997 for the aggregate amount of \$85,000,000, maturing serially through February 1, 2019 at interest rates ranging from 4.50% to 6.00%. In December 2005, \$62,425,000 was refunded. The remaining \$14,410,000 matures from February 1, 2007 to February 1, 2010.	\$ 11,475,000	\$ 14,410,000
Subtotal-Wastewater	<u>1,477,143,764</u>	<u>1,355,899,643</u>
<u>Drinking Water Fund:</u>		
Series 2007A Bonds issued May 30, 2007 for the aggregate amount of \$71,230,000, maturing from February 1, 2008 to February 1, 2025 at interest rates ranging from 4.00% to 5.00%. Of this, \$9,975,000 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program.	9,975,000	-
Series 2006B Bonds issued December 13, 2006 for the aggregate amount of \$142,930,000, maturing from February 1, 2008 to February 1, 2028 at interest rates ranging from 3.50% to 5.50%. Of this, \$30,185,000 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program.	30,185,000	-
Series 2006A Bonds issued April 25, 2006 for the aggregate amounts of \$221,355,000, maturing from February 1, 2007 to February 1, 2027 at interest rates ranging from 3.60% to 5.25%. Of this, \$17,595,000 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program.	17,140,000	17,595,000

(Continued)

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**Years Ended June 30, 2007 and 2006**

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**NOTE 7 - BONDS PAYABLE (Continued)**

	2007	2006
Series 2005A Refunding Bonds issued December 7, 2005 for the aggregate amount of \$277,930,000 to refund the callable portion of Series 1997A, 1998A, 2000A, 2000B, 2001A, and 2002B Bonds, maturing from February 1, 2006 to February 1, 2029 at interest rates ranging from 3.30% to 5.25%. Of this, \$77,535,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program.	\$ 73,670,000	\$ 77,535,000
Series 2004B Bonds issued April 7, 2004 for aggregate amount of \$200,000,000, maturing from February 1, 2005 to February 1, 2012 at interest rates ranging from 2.00% to 5.00%. Of this amount, \$32,520,000 was the final allocation to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program.	30,813,770	31,381,131
Series 2002B Bonds issued December 23, 2004 for the aggregate amount of \$66,695,000, maturing from February 1, 2013 to February 1, 2024 at interest rates ranging from 4.00% to 5.375%. Of this amount, \$14,272,730 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program. In December 2005, \$2,165,000 was refunded. The remaining \$12,107,997 matures from February 1, 2013 to February 1, 2024.	12,107,997	12,107,997
Series 2001A Bonds issued October 24, 2001 for the aggregate amount of \$400,000,000, maturing from August 1, 2004 to February 1, 2023 at interest rates ranging from 3.5% to 5.5%. Of this amount, \$79,896,000 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program. In December 2005, \$16,600,000 was refunded. The remaining \$61,444,466 matures from February 1, 2006 to February 1, 2023.	60,013,329	61,444,466

(Continued)

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**Years Ended June 30, 2007 and 2006**

**NOTE 7 - BONDS PAYABLE (Continued)**

	2007	2006
Series 2000B Bonds issued January 9, 2001 for the aggregate amount of \$100,000,000, maturing from August 1, 2019 to August 1, 2023 at interest rates ranging from 5.00% to 5.35%. Of this amount, \$30,050,000 was allocated to the DWSRF Program based upon the percentage of the original bond proceeds allocated to each program. In December 2005, \$17,100,458 was refunded. The remaining \$12,948,270 matures from August 1, 2006 to August 1, 2023.	\$ 12,948,270	\$ 12,948,270
Series 2000A Bonds issued April 25, 2000 for the aggregate of \$143,590,00, maturing serially through August 1, 2022 at interest rates ranging from 4.75% to 5.875%. Of this amount, \$21,392,571 was allocated to the DWSRF Program based upon the percentage of the original bond proceeds allocated to each program. In December 2005, \$13,006,322 was refunded. The remaining \$5,708,487 matures from August 1, 2006 to August 1, 2012.	5,011,495	5,708,487
Series 1998A Bonds issued September 1, 1998 for the aggregate amount of \$90,000,000, maturing serially through February 1, 2020 at interest rates ranging from 4.00% to 5.00%. Of this amount, \$22,249,466 was allocated to the DWSRF Program based upon the percentage of the original bond proceeds allocated to each program. In December 2005, \$10,421,496 was refunded. The remaining \$8,145,006 matures from February 1, 2006 to February 1, 2020.	<u>7,246,375</u>	<u>8,145,006</u>
Subtotal-Drinking Water	<u>259,111,236</u>	<u>226,865,357</u>
Total Principal	1,736,255,000	1,582,765,000
Loss on refunding	(13,456,923)	(17,766,075)
Net premium (discount) on bonds payable	<u>68,222,485</u>	<u>64,659,202</u>
Total Bonds Payable	1,791,020,562	1,629,658,127
Less: Current portion	<u>69,475,000</u>	<u>60,670,000</u>
Long-Term Portion	<u>\$ 1,721,545,562</u>	<u>\$ 1,568,988,127</u>

(Continued)

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
Years Ended June 30, 2007 and 2006**

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**NOTE 7 - BONDS PAYABLE (Continued)**

In December 2005, the Authority issued Series 2005A Refunding Bonds in the aggregate principal amount of \$277,930,000, which included \$258,815,000 of refunding debt and \$19,115,000 of new money debt. The refunding was undertaken to reduce total future debt service payments. As a result of the refunding, an economic gain or present value savings of \$13.8 million was realized and a reduction of \$75.2 million in future debt service payments. The refunding debt was used to refund in advance of their stated maturity dates portions of the Series 1997A, 1998A, 2000A, 2000B, 2001A, and 2002B Bonds. A portion of the proceeds, \$302,453,645, was deposited in an escrow fund which will pay principal and interest for the defeased debt. The outstanding amount of refunded debt at June 30, 2007 was \$216,000,000.

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(Continued)

STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
Years Ended June 30, 2007 and 2006

NOTE 7 - BONDS PAYABLE (Continued)

The aggregate debt service requirements for all bonds allocable to the Programs as of June 30, 2007, are as follows:

	Principal		Interest		Total	Debt Service Total
	Wastewater Fund	Drinking Water Fund	Wastewater Fund	Drinking Water Fund		
2008	\$ 59,395,841	\$ 10,079,159	\$ 72,533,774	\$ 12,858,158	\$ 85,391,932	\$ 154,866,932
2009	63,405,638	10,734,362	70,292,932	12,394,647	82,687,579	156,827,579
2010	70,664,441	12,200,559	67,501,829	11,878,897	79,380,726	162,245,726
2011	75,443,687	12,796,313	64,217,916	11,281,944	75,499,860	163,739,860
2012	79,147,098	13,222,902	60,655,196	10,661,808	71,317,004	163,687,004
2013-2017	429,225,850	74,814,150	241,243,445	43,027,804	284,271,249	788,311,249
2018-2022	447,665,117	87,964,883	126,643,933	22,205,727	148,849,660	684,479,660
2023-2027	247,731,092	34,938,908	32,400,747	4,114,590	36,515,337	319,185,337
2028-2029	4,465,000	2,360,000	156,275	177,750	334,025	7,159,025
	<u>1,477,143,764</u>	<u>259,111,236</u>	<u>735,646,047</u>	<u>128,601,325</u>	<u>864,247,372</u>	<u>2,600,502,372</u>
Loss on Refunding	(10,467,544)	(2,989,379)	-	-	-	(13,456,923)
Premium/(Discount)	<u>57,752,977</u>	<u>10,469,508</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>68,222,485</u>
Total	<u>\$1,524,429,197</u>	<u>\$266,591,365</u>	<u>\$ 735,646,047</u>	<u>\$ 128,601,325</u>	<u>\$ 864,247,372</u>	<u>\$2,655,267,934</u>

(Continued)

STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
Years Ended June 30, 2007 and 2006

NOTE 7 - BONDS PAYABLE (Continued)

The following is a summary of total debt service:

	Interest Rates Ranges	Maturity Range	Annual Payment Range	Principal
Wastewater Fund	2.74%-5.88%	2008-2028	\$ 4,465,000 - \$ 101,229,964	\$ 1,477,143,764
Drinking Water Fund	3.30%-5.88%	2008-2029	1,165,000 - 18,738,438	<u>259,111,236</u>
Combined Programs	2.74%-6.00%	2008-2029	1,195,000 - 119,135,000	1,736,255,000
Less: Current Portion				<u>69,475,000</u>
Total Long-term Portion				<u>\$ 1,666,780,000</u>

(Continued)

STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)  
NOTES TO COMBINED FINANCIAL STATEMENTS  
Years Ended June 30, 2007 and 2006

**NOTE 8 - LONG-TERM LIABILITIES**

Long-term liability activity for the years ended June 30, 2007 and 2006 was as follows:

	Balance Beginning Of Year	Increases	Decreases	Balance End of Year	Amounts Due Within One Year	Amounts Due Thereafter
<b>June 30, 2007:</b>						
Amount due to federal government	\$ 333,000	\$ 2,244,248	\$ -	\$ 2,577,248	\$ -	\$ 2,577,248
Bonds payable	1,582,765,000	214,160,000	60,670,000	1,736,255,000	69,475,000	1,666,780,000
Loss on refunding	(17,766,075)	4,309,152	-	(13,456,923)	-	(13,456,923)
Net premium on bonds payable	64,659,202	10,340,556	6,777,273	68,222,485	-	68,222,485
	<u>\$ 1,629,991,127</u>	<u>\$ 231,053,956</u>	<u>\$ 67,447,273</u>	<u>\$ 1,793,597,810</u>	<u>\$ 69,475,000</u>	<u>\$ 1,724,122,810</u>
<b>June 30, 2006:</b>						
Amount due to federal government	\$ -	\$ 333,000	\$ -	\$ 333,000	\$ -	\$ 333,000
Bonds payable	1,408,420,000	200,861,139	26,516,139	1,582,765,000	60,670,000	1,522,095,000
Loss on refunding	(4,294,288)	-	13,471,787	(17,766,075)	-	(17,766,075)
Net premium on bonds payable	39,710,566	24,948,636	-	64,659,202	-	64,659,202
	<u>\$ 1,443,836,278</u>	<u>\$ 226,142,775</u>	<u>\$ 39,987,926</u>	<u>\$ 1,629,991,127</u>	<u>\$ 60,670,000</u>	<u>\$ 1,569,321,127</u>

(Continued)

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**Years Ended June 30, 2007 and 2006**

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**NOTE 9 - FUND TRANSFERS**

Consistent with its Intended Use Plans and EPA's related Policy Statement, the State is required to report on transfers between the Drinking Water SRF and the Wastewater SRF in its financial statements. In its Intended Use Plans, the State retained the flexibility to make transfers of grants (and other funds) held in or allocable to such funds to the extent permitted by the Clean Water Act and the Safe Drinking Water Act. As of June 30, 2007, an amount up to 33% of the Safe Drinking Water Act grants for Federal Fiscal Years (FFY) 1997 through 2007 could be so transferred on a net cumulative basis between the two SRF funds.

Based on the State's award of Safe Drinking Water Act related funds for FFY 1997 through 2007, to date, the following transfers were made:

2001	\$ 20,464,898
2002	3,120,183

**NOTE 10 - PROGRAM REVENUE**

For the years ended June 30, 2007 and 2006, program revenues consisted of the following:

	2007	2006
Operating grants and contributions	\$ 106,516,912	\$ 97,591,699
Capital grants and contributions	<u>36,982,225</u>	<u>33,283,045</u>
	<u>\$ 143,499,137</u>	<u>\$ 130,874,744</u>



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## INDEPENDENT AUDITORS' REPORT ON COMBINING SCHEDULES

Members of the State Revolving Fund Loan Programs  
(Enterprise Fund of the Indiana Finance Authority)  
Indianapolis, Indiana

Our report on our audits of the basic combined financial statements of the State Revolving Fund Loan Programs, an enterprise fund of the Indiana Finance Authority, for the years ended June 30, 2007 and 2006, appears on page 1. Those audits were made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The accompanying combining schedules are presented for purposes of additional analysis of the basic combined financial statements rather than to present the financial position, results of operations and cash flows of the individual programs. Such information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

*Katz, Sapper & Miller, LLP*

Indianapolis, Indiana  
September 25, 2007

**STATE REVOLVING FUND LOAN PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**COMBINING SCHEDULES-STATEMENTS OF NET ASSETS INFORMATION**  
**June 30, 2007 and 2006**

**ASSETS**

	<b>Wastewater Program</b>		<b>Drinking Water Program</b>		<b>Combined</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Current Assets:</b>						
Cash and equivalents	\$ 407,331,366	\$ 570,652,627	\$ 56,195,516	\$ 53,670,655	\$ 463,526,882	\$ 624,323,282
Interest receivable-investments	13,296,924	12,701,110	2,483,859	2,292,638	15,780,783	14,993,748
Interest receivable-loans	13,130,810	11,616,459	1,589,219	2,258,193	14,720,029	13,874,652
Due from EPA	25,793,856	21,135,427	10,794,960	10,357,468	36,588,816	31,492,895
Loans receivable	57,142,397	47,077,155	8,930,872	7,622,312	66,073,269	54,699,467
<b>Total Current Assets</b>	<b>516,693,353</b>	<b>663,182,778</b>	<b>79,994,426</b>	<b>76,201,266</b>	<b>596,689,779</b>	<b>739,384,044</b>
<b>Noncurrent Assets:</b>						
Investments	542,566,400	455,470,243	113,742,866	114,314,581	656,309,266	569,784,824
Loans receivable	1,162,531,725	923,355,406	226,362,527	180,572,790	1,388,894,252	1,103,928,196
Equipment, net	11,157	-	-	-	11,157	-
Deferred charges, net	8,405,946	8,129,728	1,409,307	1,259,709	9,815,253	9,389,437
<b>Total Noncurrent Assets</b>	<b>1,713,515,228</b>	<b>1,386,955,377</b>	<b>341,514,700</b>	<b>296,147,080</b>	<b>2,055,029,928</b>	<b>1,683,102,457</b>
<b>Total Assets</b>	<b>2,230,210,581</b>	<b>2,050,138,155</b>	<b>421,509,126</b>	<b>372,348,346</b>	<b>2,651,719,707</b>	<b>2,422,486,501</b>

**LIABILITIES**

<b>Current Liabilities:</b>						
Interest payable	30,201,716	25,499,097	5,391,206	4,526,842	35,592,922	30,025,939
Accounts payable	812,253	217,780	(584,855)	2,431	227,398	220,211
Bonds payable-current, net	59,395,841	55,250,680	10,079,159	5,419,320	69,475,000	60,670,000
<b>Total Current Liabilities</b>	<b>90,409,810</b>	<b>80,967,557</b>	<b>14,885,510</b>	<b>9,948,593</b>	<b>105,295,320</b>	<b>90,916,150</b>
<b>Long-term Liabilities:</b>						
Amount due to federal government	2,329,127	283,416	248,121	49,584	2,577,248	333,000
Bonds payable, net	1,465,033,356	1,341,551,241	256,512,206	227,436,886	1,721,545,562	1,568,988,127
<b>Total Long-term Liabilities</b>	<b>1,467,362,483</b>	<b>1,341,834,657</b>	<b>256,760,327</b>	<b>227,486,470</b>	<b>1,724,122,810</b>	<b>1,569,321,127</b>
<b>Total Liabilities</b>	<b>1,557,772,293</b>	<b>1,422,802,214</b>	<b>271,645,837</b>	<b>237,435,063</b>	<b>1,829,418,130</b>	<b>1,660,237,277</b>

**NET ASSETS**

Restricted for water pollution and drinking water projects and other related program purposes

<b>\$ 672,438,288</b>	<b>\$ 627,335,941</b>	<b>\$ 149,863,289</b>	<b>\$ 134,913,283</b>	<b>\$ 822,301,577</b>	<b>\$ 762,249,224</b>
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**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**COMBINING SCHEDULES STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS INFORMATION  
Years Ended June 30, 2007 and 2006**

	Wastewater Program 2007	Wastewater Program 2006	Drinking Water Program 2007	Drinking Water Program 2006	2007	Combined 2006
<b>OPERATING REVENUE</b>						
Interest income-investments	\$ 54,325,184	\$ 51,778,624	\$ 8,386,486	\$ 8,793,910	\$ 62,711,670	\$ 60,572,534
Interest income-loan participants	36,660,718	31,426,935	7,106,524	5,565,230	43,767,242	36,992,165
Administration fee	29,000	19,000	9,000	8,000	38,000	27,000
Other	-	-	692,636	474,438	692,636	474,438
Total Operating Revenue	91,014,902	83,224,559	16,194,646	14,841,578	107,209,548	98,066,137
<b>OPERATING EXPENSES</b>						
Interest	69,231,616	59,444,660	11,582,248	9,855,963	80,813,864	69,300,623
Amortization of deferred charges	1,021,137	907,497	146,653	106,073	1,167,790	1,013,570
Trustee fees	310,365	903,599	10,235	95,853	320,600	999,452
Other program and administrative	1,143,293	1,142,209	693,873	478,318	1,837,166	1,620,527
Total Operating Expenses	71,706,411	62,397,965	12,433,009	10,061,769	84,139,420	72,934,172
<b>OPERATING INCOME</b>	19,308,491	20,826,594	3,761,637	4,305,371	23,070,128	25,131,965
<b>CAPITAL CONTRIBUTIONS</b>	25,793,856	21,135,427	11,188,369	12,147,618	36,982,225	33,283,045
<b>INCREASE IN NET ASSETS</b>	45,102,347	41,962,021	14,950,006	16,452,989	60,052,353	58,415,010
<b>TRANSFERS</b>	-	(675,900)	-	675,900	-	-
<b>NET ASSETS</b>						
Beginning of Year	627,335,941	586,049,820	134,913,283	117,784,394	762,249,224	703,834,214
End of Year	\$ 672,438,288	\$ 627,335,941	\$ 149,863,289	\$ 134,913,283	\$ 822,301,577	\$ 762,249,224

STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)

COMBINING SCHEDULES-STATEMENTS OF CASH FLOWS INFORMATION  
Years Ended June 30, 2007 and 2006

	Wastewater Program		Drinking Water Program		Combined	
	2007	2006	2007	2006	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Cash payments for salaries, administrative and other expense:						
Administration fee	\$ (859,185)	\$ (2,025,392)	\$ (598,758)	\$ (97,302)	\$ (1,457,943)	\$ (2,122,694)
Net Cash (Used) by Operating Activities	29,000	19,000	9,000	8,000	38,000	27,000
	<u>(830,185)</u>	<u>(2,006,392)</u>	<u>(589,758)</u>	<u>(89,302)</u>	<u>(1,419,943)</u>	<u>(2,095,694)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Maturities of loans to participants	50,034,948	43,253,938	9,138,102	6,601,953	59,173,050	49,855,891
Issuance of loans to participants	(299,276,509)	(142,063,943)	(56,236,399)	(28,867,074)	(355,512,908)	(170,931,017)
Change in investments	(87,096,157)	(10,883,660)	571,715	(30,547,373)	(86,524,442)	(41,431,033)
Interest received on loans and investments:			15,970,763	13,780,849	104,846,500	96,963,587
Purchase of capital assets	88,875,737	83,182,738			(11,157)	
Net Cash (Used) by Investing Activities	(11,157)	-				
	<u>(247,473,138)</u>	<u>(26,510,927)</u>	<u>(30,555,819)</u>	<u>(39,031,645)</u>	<u>(278,028,957)</u>	<u>(65,542,572)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>						
Proceeds from debt issuance	174,000,000	412,913,482	40,160,000	99,336,436	214,160,000	512,249,918
Principal payments to reduce indebtedness including refunding	(46,372,724)	(260,565,683)	(6,424,841)	(65,862,386)	(52,797,565)	(326,428,069)
Payment of debt issuance costs, net of refunding	(1,297,355)	867,397	(296,251)	(73,084)	(1,593,606)	794,313
Change in amount due to federal government	2,045,711	283,416	198,537	49,584	2,244,248	333,000
Interest paid on debt	(64,528,997)	(58,892,868)	(10,717,884)	(9,507,371)	(75,246,881)	(68,400,239)
Net Cash Provided by Non-Capital Financing Activities	63,846,635	94,605,744	22,919,561	23,943,179	86,766,196	118,548,923
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>						
Capital Contributions (EPA Grants)	21,135,427	-	10,750,877	1,790,150	31,886,304	1,790,150
Net Cash Provided by Capital Financing Activities	21,135,427	-	10,750,877	1,790,150	31,886,304	1,790,150
<b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	(163,321,261)	66,088,425	2,524,861	(13,387,618)	(160,796,400)	52,700,807
<b>CASH AND EQUIVALENTS</b>						
Beginning of Year	570,652,627	504,564,202	53,670,655	67,058,273	624,323,282	571,622,475
End of Year	<u>\$ 407,331,366</u>	<u>\$ 570,652,627</u>	<u>\$ 56,195,516</u>	<u>\$ 53,670,655</u>	<u>\$ 463,526,882</u>	<u>\$ 624,323,282</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES</b>						
Operating income	\$ 19,308,491	\$ 20,826,594	\$ 3,761,637	\$ 4,305,371	\$ 23,070,128	\$ 25,131,965
Adjustments to reconcile operating income to net cash used by operating activities:						
Interest income	(90,985,902)	(83,205,559)	(15,493,010)	(14,359,140)	(106,478,912)	(97,564,699)
Interest expense	69,231,616	59,444,660	11,582,248	9,855,963	80,813,864	69,300,623
Amortization of deferred charges	1,021,137	907,497	146,653	106,073	1,167,790	1,013,570
Changes in assets and liabilities:						
Accounts payable	594,473	20,416	(587,286)	2,431	7,187	22,847
Net Cash (Used) by Operating Activities	<u>\$ (830,185)</u>	<u>\$ (2,006,392)</u>	<u>\$ (589,758)</u>	<u>\$ (89,302)</u>	<u>\$ (1,419,943)</u>	<u>\$ (2,095,694)</u>



**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND  
OMB CIRCULAR A-133 AUDITORS' REPORTS**

**June 30, 2007**

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

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*Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance  
with Government Auditing Standards*

*Year Ended June 30, 2007*

Indiana Finance Authority  
State Revolving Fund Loan Programs

We have audited the combined financial statements of the State Revolving Fund Loan Programs, an enterprise fund of the Indiana Finance Authority, as of and for the year ended June 30, 2007, and have issued our report thereon dated September 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the State Revolving Fund Loan Programs' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State Revolving Fund Loan Programs' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State Revolving Fund Loan Programs' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State Revolving Fund Loan Programs' combined financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Katy, Sapp & Miller, LLP*

Indianapolis, Indiana  
September 25, 2007



**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2007**

	CFDA Number	Grant Number	Program or Award Amount	Federal Expenditures
<b>U.S. ENVIRONMENTAL PROTECTION AGENCY:</b>				
Capitalization Grants for Wastewater State Revolving Funds	66.458	CS180001-07	\$ 25,793,856	<u>\$ 25,793,856</u>
Capitalization Grants for Drinking Water State Revolving Funds				
	66.468	FS975486-02	203,204	79,906
	66.468	FS975786-01	500,000	213,404
	66.468	FS975486-04	194,986	125,000
	66.468	FS975486-05	400,000	30,060
	66.468	FS975486-05	194,574	137,675
	66.468	FS985486-06	500,000	500,000
	66.468	FS985486-07	10,794,960	10,794,960
				<u>11,881,005</u>
				<u><u>\$ 37,674,861</u></u>

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the State Revolving Fund Loan Programs, an enterprise fund of the Indiana Finance Authority, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic combined financial statements

**NOTE 2 - SUBRECIPIENTS**

The State Revolving Fund Loan Programs provided federal awards to subrecipients as follows:

Program Title	CFDA Number	Amount Provided
Capitalization Grants for Wastewater State Revolving Funds	66.458	\$25,793,856
Capitalization Grants for Drinking Water State Revolving Funds	66.468	10,794,960

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*Report on Compliance with Requirements Applicable  
to Each Major Program and on Internal Control over  
Compliance in Accordance with OMB Circular A-133*

*Year Ended June 30, 2007*

Indiana Finance Authority  
State Revolving Fund Loan Programs

Compliance

We have audited the compliance of the State Revolving Fund Loan Programs, an enterprise fund of the Indiana Finance Authority, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to the major federal programs for the year ended June 30, 2007. The State Revolving Fund Loan Programs' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major federal programs is the responsibility of the State Revolving Fund Loan Programs' management. Our responsibility is to express an opinion on the State Revolving Fund Loan Programs' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State Revolving Fund Loan Programs' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State Revolving Fund Loan Programs' compliance with those requirements.

In our opinion, the State Revolving Fund Loan Programs complied, in all material respects, with the requirements referred to above that are applicable to the major federal programs for the year ended June 30, 2007.

### Internal Control over Compliance

The management of the State Revolving Fund Loan Programs is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State Revolving Fund Loan Programs' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State Revolving Fund Programs' internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

### Schedule of Expenditures of Federal Awards

We have audited the combined financial statements of the State Revolving Fund Loan Programs, an enterprise fund of the Indiana Finance Authority, as of and for the year ended June 30, 2007, and have issued our report thereon dated September 25, 2007. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the State Revolving Fund Loan Programs' basic combined financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic combined financial statements taken as a whole.

This report is intended solely for the information and use of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Katz, Agnew & Miller, LLP*

Indianapolis, Indiana  
September 25, 2007

**STATE REVOLVING FUND LOAN PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2007**

**SECTION I**

Summary of Auditors' Results

Katz, Sapper & Miller, LLP has issued an unqualified opinion on the combined financial statements of the State Revolving Fund Loan Programs, an enterprise fund of the Indiana Finance Authority, as of and for the year ended June 30, 2007.

Katz, Sapper & Miller, LLP has also issued an unqualified opinion on the types of compliance requirements described in U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to the State Revolving Fund Loan Programs' major federal programs for the year ended June 30, 2007.

For the year ended June 30, 2007, there were no audit findings to report under OMB *Circular No. A-133*.

The programs identified and tested as major programs were:

CFDA Number	Agency	Title
66.458	U.S. Environment Protection Agency	Capitalization Grants for State Revolving Funds

The threshold used to distinguish between type A and type B programs was \$1,130,246.

Auditee qualified as a low risk auditee                        X      Yes                                No

**SECTION II**

Financial Statements Findings

None

**SECTION III**

Federal Award Findings

None

## EXHIBIT F

<b>Churubusco</b>	<b>\$840,000</b>	<b>July 31, 2006</b>	<b>Est. Savings</b>
<b>WW052131 01</b>	<b>3.70%</b>		<b>\$87,961</b>

The Town of Churubusco proposes to upgrade its WWTP from 0.25 million gallons a day (MGD) to 0.375 MGD.

The treatment plant must be upgraded in order to treat additional wastewater flows and loadings, to increase the treatment capacity in order to reduce combined sewer overflow discharges, to address mechanical equipment deficiencies, and to address safety issues at the plant. Some equipment currently operates inefficiently and some is at the end of its useful life. No action would put the plant in jeopardy of violating its permit and polluting the Churubusco Creek project.

The CSO elimination project will reduce the CSO frequency, volumes and pollutant concentration from the remaining CSO's in the Churubusco Creek which is listed on the 2006 303(d) list for impaired biotic communities.

<b>Tell City</b>	<b>\$1,425,000</b>	<b>August 17, 2006</b>	<b>Est. Savings</b>
<b>WW056762 01</b>	<b>3.45%</b>		<b>\$194,741</b>

Tell City proposes to install a new collection system to three areas with septic system failures. A fourth area is requesting reimbursement for the emergency sewer work it completed to a collapsed sewer. Small lot size and poor soil conditions hamper the effectiveness and rehabilitation or replacement of on-site systems.

These projects will abate nutrient and pathogen loadings by transporting raw sewage to the treatment plant rather than to the watershed. The watershed drains to Windy Creek which drains directly to the Ohio River. The Ohio River is impaired at this point for dioxins, E. coli and fish consumption advisory.





Tell City: Area C new collection system being installed.

<b>Hartsville</b>	<b>\$386,000</b>	<b>October 9, 2006</b>	<b>Est. Savings</b>
<b>WW051503 01</b>	<b>3.15%</b>		<b>\$67,356</b>

The town plans to rehabilitate its existing sewer system and wastewater treatment plant.

Improvements to the sewer system include replacement and rehabilitation to various manholes around the system. The treatment plant will increase its peak capacity to handle excess infiltration/inflow. This work on the Hartsville wastewater treatment plant will abate overflows at the plant and reduce pathogen loading to Clifty Creek, currently on the 303(d) list for E. coli impairment.



Hartsville: Treatment plant rehabilitation.

<b>Alexandria</b>	<b>\$400,000</b>	<b>November 17, 2006</b>	<b>Est. Savings</b>
<b>WW070148 01</b>	<b>2.90%</b>		<b>\$82,243</b>

This project is for the planning and design of Alexandria's proposed WWTP upgrade. The findings from this project phase will result in the development of a Preliminary Engineering Report for submittal to the WWSRF for review and eventual approval. Final design will not occur until after the PER has been approved by the WWSRF.

Since this is a planning project, it will have no direct environmental effects and was issued a categorical exclusion from substantive environmental review.

The purpose of the WWTP improvement project is to bring the WWTP into compliance with its NPDES permit. This will decrease loadings of ammonia, nitrogen and pathogens to the White River, which is included on the "303(d) List" for E. coli and impaired biotic communities.

<b>Liberty</b>	<b>\$5,600,000</b>	<b>November 27, 2006</b>	<b>Est. Savings</b>
<b>WW051181 01</b>	<b>2.65%</b>		<b>\$1,323,458</b>

The Town of Liberty will rehabilitate the sewers throughout the system to eliminate infiltration and inflow and make improvements to its wastewater treatment plant and increase the design capacity to .58 MGD. The collection system allows excessive infiltration/inflow (I/I) to enter the system, particularly during wet weather events.

Due to the high wet weather flows, the sewers can become surcharged causing sanitary sewer overflows (SSO's), allowing raw sewage to come in contact with the ground and/or surface waters which creates public health and safety concerns, as well as environmental degradation. The WWTP is limited in its ability to treat the high flows during wet weather events due to excessive I/I in the collection system; this treatment deficiency leads to violations of the town's National Pollutant Discharge Elimination System (NPDES) permit. In addition, many of the WWTP components have exceeded their useful service life and require replacement.

Improvements will eliminate SSO's to Silver Creek and reduce pathogen loadings. The Silver Creek is included on the 2006 303(d) list for E. coli.

<b>Mount Vernon</b>	<b>\$400,000</b>	<b>November 29, 2006</b>	<b>Est. Savings</b>
<b>WW064965 02</b>	<b>2.90%</b>		<b>\$82,243</b>

This project is for the planning and design of Mount Vernon's proposed WWTP improvements. The findings from this project phase will result in the development of a Preliminary Engineering Report for submittal to the WWSRF for review and eventual approval. Final design will not occur until after the PER has been approved by the WWSRF.

Since this is a planning project, it will have no direct environmental effects and was issued a categorical exclusion from substantive environmental review.

The purpose of the WWTP improvement project is to bring the WWTP into compliance with its NPDES permit. This will decrease loadings of ammonia, nitrogen and pathogens to the White River, which is included on the "303(d) List" for E. coli and impaired biotic communities.

<b>Centerville</b>	<b>\$3,400,000</b>	<b>December 15, 2006</b>	<b>Est. Savings</b>
<b>WW064689 01</b>	<b>2.65%</b>		<b>\$803,528</b>

Centerville has one existing combined sewer overflow (CSO) located near the WWTP site. The proposed WWTP expansion will reduce the frequency, volume and duration of combined sewer overflows. The existing CSO will be abandoned and relocated at the proposed wet well down stream of the proposed headworks. The screening equipment in the proposed headworks is sized to accommodate the predicted CSO flows; it will reduce the amount of settleables and floatables that are discharged to Noland's Fork Creek during wet weather.

Nolands Fork Creek is impaired for E. Coli and impaired biotic communities.

<b>Columbia City</b>	<b>\$6,928,000</b>	<b>December 15, 2006</b>	<b>Est. Savings</b>
<b>WW051792 02</b>	<b>2.90%</b>		<b>\$1,424,444</b>

Columbia City proposed to conduct sewer rehabilitation and elimination of at least 1 combined sewer overflow (CSO) in the system.

Development along the U.S. Route 30 corridor both north and east of the city has added sanitary flows to the combined sewer system that contribute to the frequency and volume of CSO's. To reduce the number of CSO structures and CSO events, it is necessary to reroute the existing and future sanitary flows around the combined sewer system.

Elimination of four lift stations will reduce operation and maintenance expenditures. Elimination of CSO #17 will eliminate approximately 5 million gallons per year of combined sewage from entering the Blue River. Several sanitary sewer areas now send flow into the combined system; this project will reroute those flows into the new sanitary-only interceptor,



increasing capacity in the combined sewers. The net effect should be to reduce the CSO frequency, volumes, and pollutant concentration from the remaining CSO's. Also, this project will replace the 1990 combination sewer vacuum truck which has exceeded its useful life of 10 years; this will help ensure the proper operation and maintenance of the collection system.

The environmental benefit of reducing combined sewer overflow events will be a reduction in pathogen loadings the Blue River, already noted for impaired biotic communities and high E. coli levels on the 2006 303(d) list.

<b>Columbus</b>	<b>\$27,449,000</b>	<b>December 15, 2006</b>	<b>Est. Savings</b>
<b>CS182399 01</b>	<b>3.65%</b>		<b>\$3,050,518</b>

The City of Columbus plans to implement its Long Term Control Plan in several phases. The phase 1A will include Water Street Sewer, a new Headworks Screening and Pumping Facility at Haw Creek, and improvements to Mariah Basin for wet weather flow equalization. Equalized flow will be diverted back to the treatment plant. Additional phases will be submitted under future preliminary engineering reports.

The proposed Phase 1A projects will reduce the frequency, volume and duration of combined sewer overflows from the Boat Dock and Maple Grove CSO's to the East Fork of White River improving the water quality of this stream.

<b>Indianapolis</b>	<b>\$34,750,000</b>	<b>December 15, 2006</b>	<b>Est. Savings</b>
<b>Indy Loan #10</b>	<b>2.90%</b>		<b>\$7,144,837</b>

Indianapolis secured funding to implement six septic tank elimination projects, one WWTP improvement, one sewer rehabilitation project and two planning (CSO modeling and a long term planning) and design projects.

Several neighborhoods benefited from elimination of failing septic systems. Areas include the east side projects that will eliminate 2,437 failing septic systems in all.

The City is modeling for a future facility plan that will identify flows throughout the city and provide a hydraulic model.

The Belmont treatment plant will construct a new primary effluent pump station to convey flows from the Belmont plant to the Southport plant.

Environmental benefits include: Reduced e-coli into the White River and other area streams, infiltration and inflow reduction, CSO elimination and/or reduction and via increased monitoring.

<b>Union City</b>	<b>\$1,720,000</b>	<b>December 15, 2006</b>	<b>Est. Savings</b>
<b>WW055868 01</b>	<b>2.85%</b>		<b>\$364,266</b>

The City of Union City will use SRF funding to eliminate excessive infiltration/inflow from its sewer system. The WWTP needs to be upgraded due to both age and flow volume to handle the additional peak wet-weather flows.

Collection System: Portions of the collection system were built as combined sewers, and though efforts were made in 1981 to separate the two, cross-connections between storm and sanitary sewers still exist. The collection system has deteriorated with age and experiences wet weather inflow and infiltration (I/I) from several sources. Failing manhole chimney sections, offset frames and covers, leaking and collapsed sections of pipe, and root intrusions not only account for inflow and infiltration, but also lead to sewer backups and Sanitary Sewer Overflows (SSO's), contributing to the impairment of the Little Mississinewa. Diversion Structures actively divert storm water containing raw sewage from cross-connections to storm sewer discharge points during rain events.

Wastewater Treatment Plant Needs: The WWTP was last upgraded in 1982, and much of the equipment has exceeded its typical 20-year service life and needs replacement. The major processes at the plant, including the primary settling tanks, rotating biological contactors, and tertiary filters have a history of failures. The plant cannot handle extreme peak wet-weather flows; these have resulted in raw sewage bypasses and NDPES permit violations. New equipment is needed to replace the deteriorated and worn-out equipment. Additional peak flow capacity is needed to handle high wet-weather flows and eliminate bypasses.

The elimination of SSO's will reduce pathogen loadings to the Little Mississinewa, included on the 2006 303(d) list for high E. coli.

<b>Aurora</b>	<b>\$4,000,000</b>	<b>December 29, 2006</b>	<b>Est. Savings</b>
<b>CS182366 01</b>	<b>2.65%</b>		<b>\$945,327</b>

The City of Aurora will address sanitary sewer overflows as well as combined sewer overflows with the SRF Loan. Aurora will replace a pump station, upgrade two pump stations and rehabilitate sewers and manholes throughout the system. This will allow the City to eliminate two SSO's and eliminate 75% of sewage in the downtown combined sewer system. South Dearborn Regional Sewer District treats the flow for the City of Aurora.

The SSO and CSO projects will reduce the frequency, volumes and pollutant concentration in the Ohio River.

<b>New Albany</b>	<b>\$1,280,000</b>	<b>December 29, 2006</b>	<b>Est. Savings</b>
<b>CS182336 02</b>	<b>3.95%</b>		<b>\$178,848</b>

The proposed New Albany WWTP is designed to treat 12.0 MGD of average daily flow and 66.0 MGD of peak design flow. The expanded plant discharges into Falling Run Creek. This loan is to refund New Albany for an addendum project to the original SRF loan. The project involved EPA required improvements to the influent lift station bar screen in order to prevent bypasses to Falling Run Creek.

The prevention of bypasses at the plant will reduce pollutant loading to Falling Run Creek which flows directly to the Ohio River.

<b>Cloverdale</b>	<b>\$720,000</b>	<b>January 31, 2007</b>	<b>Est. Savings</b>
<b>CS182394 03</b>	<b>3.95%</b>		<b>\$100,602</b>

The Town of Cloverdale, in this third installment of their treatment plant upgrade, closed on additional funds to make additional improvements. Most of the equipment is well beyond the normal 15-to-20 year useful service life. Capacities need to be increased to handle current and future flows. A new belt filter press that also includes a new building and increasing the peak design capacity to 2.5 MGD is the most significant improvement in this third loan. The project will also convert the disinfection system from chlorination/dechlorination to ultraviolet or UV disinfection.

The treatment plant discharges to Rabbit Run, a tributary to Doe Creek; Doe Creek discharges into Cataract Lake.

<b>Greensburg</b>	<b>\$8,500,000</b>	<b>May 30, 2007</b>	<b>Est. Savings</b>
<b>WW070216 02</b>	<b>4.39%</b>		<b>\$987,215</b>

The WWTP and the collection system improvements projects are being proposed in two phases. The first phase will address the need to provide conveyance for additional flows from the expected industrial, commercial and residential expansion to the north and west of Greensburg. Phase 1 will include: a 2.0 MGD lift station located northwest of the city and a new 18-inch force main being extended from the lift station to a new 48-inch interceptor sewer located immediately upstream of the WWTP headworks. Part of Phase 2 will also be included in this loan. Phase 2 entails expanding the existing WWTP to 8.9 MGD and increasing the peak daily design flow to 15.0 MGD and peak wet weather flow to 23.0 MGD.

<b>Hammond</b>	<b>\$17,225,000</b>	<b>May 30, 2007</b>	<b>Est. Savings</b>
<b>CS182394 03</b>	<b>4.14%</b>		<b>\$2,455,341</b>

The Hammond Sanitary District is working with the U.S. EPA to solve significant Combined Sewer Overflow issues. This loan covers several aspects included in those discussions. CSO Basin Design, Engineering and site clearing following demolition for the new site is part of this loan. Also included are the Columbia Avenue pump station and force main, treatment plant improvements, additional SCADA, biosolids equipment, processing and storage areas. Funding was provided for the Little Calumet River CSO Phase II project which will provide a larger line for both flow and storage in rain events.

This loan will eliminate at least one CSO in Hammond. Flows diverted in Phase II will be continued through other loans with the Indiana SRF Loan Program.

CSO events are listed as one of five pollutant sources of E. coli in the Little Calumet, Portage Burns Waterway TMDL for E. coli. The reduction of CSO events to the Illinois to Indiana Harbor Canal portion of the Little Calumet River will abate pathogen loading to the stream which is currently on the 2006 303(d) list for ammonia, chlorides, cyanide, E. coli, impaired biotic communities and fish consumption advisories.

<b>Wolcott</b>	<b>\$688,000</b>	<b>May 30, 2007</b>	<b>Est. Savings</b>
<b>CS182394 03</b>	<b>4.39%</b>		<b>\$79,906</b>

The town of Wolcott has infiltration and inflow entering the system. The project proposes sewer rehabilitation of the system and some treatment plant upgrades that will allow additional flows through the system and at the same time replacing aging equipment to meet the plant's 20-year needs. The improvements to the collection system slip line of pipe, cleaning and rehabilitation manholes and the IBP lift station. Treatment plant improvements include replacing the grit chamber in the headworks with an aerated or vortex unit or modify the unit to allow easier cleaning; replace a pinch valve and renovate effluent disinfection unit; scour and clean the concrete; epoxy seal any cracks in the oxidation ditch; and construct a new roof on the lab building for better drainage.

## Exhibit G

### CUMULATIVE HISTORY OF STATE MATCH

Approximately \$5.32 million of additional State match was deposited in the WWSRF Program in SFY 2007. To date, the WWSRF State match has aggregated in excess of 20% of the awarded \$614,278,653 capitalization grants through June 30, 2007, which results from the following cumulative history of State matches to the WWSRF Program:

\$ 145,492	State match appropriated for administrative costs in SFY 1992 (June, 1992)
145,492	State match appropriated for administrative costs in SFY 1993 (July 15, 1992, October 1, 1992, January 1, 1993 and April 1, 1993)
582,501	State match disbursed in connection with a direct loan to the Town of Wanatah made in 1991.
13,704,753	Series 1993A State Match Revenue Bond net proceeds (January 1993)*
13,790,322	Series 1994A State Match Revenue Bond net proceeds (March 1994)**
137,540	State match appropriated for administrative costs in SFY 1994
9,264,301	Series 1995A State Match Revenue Bond net proceeds (February 1995)**
139,973	State match appropriated for administrative costs in SFY 1995
70,904	State match related to other administrative costs
15,159,296	Series 1997A State Match Revenue Bond net proceeds (September 1997)
1,134,501	Series 1998 State Revolving Fund Program Bond net proceeds representing a State Match allocation (September 1998)
27,101,378	Series 2000A State Revolving Fund Program Bond net proceeds representing a State Match allocation (April 2000)
7,701,881	Series 2000B State Revolving Fund Program Bond net proceeds representing a State Match allocation (January 2001 & July 2001)
13,200,000	Series 2001A State Revolving Fund Program Bond net proceeds representing a State Match allocation (November 2001 & July 2002)
6,387,856	Series 2004B State Revolving Fund Program Bond net proceeds representing a State Match allocation (April 2004)
6,800,000	Series 2004B State Revolving Fund Program Bond net proceeds representing a State Match allocation (February 2005)
2,250,000	Series 2006A State Revolving Fund Program Bond net proceeds representing a State Match allocation (April 2006)
4,220,770	Series 2006B State Revolving Fund Program Bond net proceeds representing a State Match allocation (December 2006)
1,100,000	Series 2007A State Revolving Fund Program Bond net proceeds representing a State Match allocation (May 2007)
<u>\$123,036,960</u>	TOTAL

\* Source restructured in SFY 2003 vis-à-vis Series 2002A State Revolving Fund Program Bond net proceeds representing a State Match allocation (December 2002)

\*\* Source restructured in SFY 2004 vis-à-vis Series 2004A State Revolving Fund Program Bond net proceeds representing a State Match allocation (April 2004)

As a result of the foregoing, the State has deposited State match in excess of that required based on grants awarded as of the end of SFY 2007 by \$181,229 (also known as over-match), which are banked toward future capitalization grants that are expected to be awarded in SFY 2008. This over-match is intended to permit, and will allow, the State to immediately convert its next capitalization grant (expected to be awarded in early FFY 2008) to cash (and deposit it in the WWSRF) based upon incurred costs paid by the close of SFY 2007 and banked as a result of their not having yet been used to convert any capitalization grant to cash.

State match has been provided from 3 sources, namely (1) State appropriated funds; (2) State Match Revenue Bonds (with respect to the State's bond financing that occurred before September 1998), the entire net proceeds of which were allocated solely to State match purposes, and (3) State Revolving Fund Program Bonds (with respect to the State's bond financings during and after September 1998), the net proceeds of which program bonds are allocated between 4 distinct purposes – (A) WWSRF's State match; (B) WWSRF's leveraged loans; (C) DWSRF's State match; and (D) DWSRF's leveraged loans.

The State Match Revenue Bonds are repaid semi-annually and since all of their proceeds were used for State match, the State tracks, allocates and records their entire payment as a State match repayment such that it is paid solely from WWSRF earnings applied on each payment date toward that bond payment. The State Revolving Fund Program Bonds are also repaid semi-annually and at the time of each payment the State tracks, allocates and records their payment *first* between WWSRF and DWSRF purposes (with the percentage paid from WWSRF being equal to the proportion of the net bond proceeds originally deposited in WWSRF from those bonds as compared to their total net bond proceeds) and *second* between State match and leveraged loans purposes (with the payment allocated as a State match repayment computed and tracked to be no more than the amount of the total WWSRF earnings applied on each payment date toward that bond payment). Set forth in the attached Exhibit G-1 is the principal amount of the State Revolving Fund Program Bonds allocated to State match purposes for the WWSRF and the principal amount repaid as of the end SFY 2007.

The State annually designates whether principal maturities of the State Revolving Fund Program Bonds retired in a State Fiscal Year relate to State match or leveraged bonds. Generally, it anticipates retiring State match related bonds first leaving primarily program bonds allocated to the leveraged loans purposes outstanding. Once all State Revolving Fund Program Bonds allocated to the WWSRF State match purposes are retired (and/or the number of series with outstanding State match bonds are reduced), this policy will simplify the tracking of funds, reporting, bond disclosure, and allocation of semi-annual debt service.

**WASTEWATER**

Revenue Bonds	Original Par Amount of Bonds Designated as <u>State Match</u>	Par Amount retired during SFY Ending June 30					Remaining Par Amount of Bonds Designated as <u>State Match</u>	
		2007	2006	2005	2004	2003	All Prior SFYs	
1993*	\$ 3,930,000	\$ -	\$ -	\$ -	\$ -	\$ 585,000	\$ 3,345,000	\$ -
1994♦	3,650,000	-	-	-	605,000	575,000	2,470,000	-
1995♦	2,270,000	-	-	385,000	360,000	345,000	1,180,000	-
1997^	6,090,000	700,000	670,000	640,000	615,000	590,000	560,000	2,315,000
1998	1,146,360	-	-	-	1,074,799	33,400	38,161	-
2000A	27,257,690	3,983,008	3,787,261	3,600,026	3,429,812	3,272,364	278,220	8,906,999
2000B ^	-	-	-	-	-	-	-	-
2001A	12,652,000	5,733,863	1,860,604	2,124,690	528,172	-	-	2,404,671
2002A*	10,874,000	-	-	5,474,000	5,400,000	-	-	-
2002B	-	-	-	-	-	-	-	-
2004A♦	19,071,553	-	7,256,553	11,815,000	-	-	-	-
2004B	12,105,996	2,922,639	2,809,586	3,023,014	-	-	-	3,350,757
2004C	-	-	-	-	-	-	-	-
2005A ^	17,437,953	790,000	-	-	-	-	-	16,647,953
2006A	2,146,636	2,146,636	-	-	-	-	-	-
2006B	4,027,035	-	-	-	-	-	-	4,027,035
2007A	1,073,358	-	-	-	-	-	-	1,073,358
<b>Total</b>	<b>\$ 123,732,581</b>	<b>\$16,276,146</b>	<b>\$16,384,004</b>	<b>\$27,061,730</b>	<b>\$12,012,783</b>	<b>\$ 5,400,764</b>	<b>\$ 7,871,381</b>	<b>\$ 38,725,773</b>

**Notes:**

- \*2002A refinanced the outstanding portion of the 1993 Bonds; only the part retired before issuance of 2002A (together with the unrefunded February 1, 2003 maturity of the 1993 Bonds) are shown under 1993 heading.
- ♦2004A refinanced the outstanding portion of the 1994 & 1995 Bonds; only the part retired before issuance of 2004A (together with the unrefunded February 1, 2005 maturity of the 1995 Bonds) are shown under 1994 & 1995 heading.
- ^2005A refinanced a portion of the outstanding 1997 & 2000B Bonds; only the part retired before issuance of 2005A together with the unrefunded February 1, 2006 TO 2010 maturities of the 1997 Bonds, are shown under 1997 & 2000B heading.

Exhibit H

CUMULATIVE HISTORY OF FEDERAL CAPITALIZATION GRANTS

\$22,731,411	FFY 1989 Federal Capitalization Grant
\$23,512,995	FFY 1990 Federal Capitalization Grant
\$49,459,806	FFY 1991 Federal Capitalization Grant
\$46,826,208	FFY 1992 Federal Capitalization Grant
\$46,321,506	FFY 1993 Federal Capitalization Grant
\$28,741,977	FFY 1994 Federal Capitalization Grant
\$29,684,260	FFY 1995 Federal Capitalization Grant
\$48,623,553	FFY 1996 Federal Capitalization Grant
\$15,020,160	FFY 1997 Federal Capitalization Grant
\$32,452,972	FFY 1998 Federal Capitalization Grant
\$32,454,299	FFY 1999 Federal Capitalization Grant
\$35,916,531	FFY 2000 Federal Capitalization Grant
\$33,645,988	FFY 2001 Federal Capitalization Grant
\$32,128,866	FFY 2002 Federal Capitalization Grant
\$31,919,976	FFY 2003 Federal Capitalization Grant
\$31,939,281	FFY 2004 Federal Capitalization Grant
\$25,969,581	FFY 2005 Federal Capitalization Grant
\$21,135,427	FFY 2006 Federal Capitalization Grant
\$25,793,856	FFY 2007 Federal Capitalization Grant
<hr/>	
\$614,278,653	TOTAL

## **EXHIBIT I to the Annual Report for SFY<sup>1</sup> 2007**

### **SUMMARY OF AVAILABLE FUNDS IN THE INDIANA FINANCE AUTHORITY'S SRF ACCOUNTS**

This Exhibit identifies the intended uses of the funds held in various accounts of the CWSRF, and how those uses support the goals of the CWSRF. This Exhibit also demonstrates how the Authority meets the requirements of 40 CFR 35.3135(d) by using all of the funds in the CWSRF in an expeditious and timely manner.

#### **Sources, Uses and Available Balances in SRF Accounts**

The following accounts have been created and exist under the Authority's Wastewater Trust Indenture and comprise its CWSRF. Set forth on the attached Schedule 1 (the "Use Schedule") is detail on what funds are held in the CWSRF and how they were expeditiously and timely used in SFY 2007 and will continue to be in perpetuity.

#### **Wastewater Purchase Account.**

*Sources of Funds:* Funds held in this account<sup>2</sup> come from proceeds of Program Bonds<sup>3</sup> issued by the Authority. The Authority expects to cause additional Program Bonds to be issued at times and in amounts sufficient to meet the funding requirements for loans presently closed as of the end of the SFY 2007 as well as loans anticipated to be closed in SFY 2008 and after.

*Uses of Funds:* These funds are used to make loans for qualified Proposed Projects as permitted by 40 CFR 35.3120(a). This use directly furthers the primary purpose of the CWSRF Program by financing

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<sup>1</sup> Refers to the State Fiscal Year ending on June 30 of the year listed.

<sup>2</sup> Pursuant to SRF Indenture modification, the former State Match Loan Account was consolidated into this Account effective May 30, 2007.

<sup>3</sup> To date, the Authority (or its processor issuer) has issued multiple series of bonds including several refunding series (the "Program Bonds"), a portion of which are issued for the CWSRF. An allocated portion of the Program Bonds were deposited in the Purchase Account (with such bonds being referred to as the "Guarantee Revenue Bonds" in this Report) to make loans from the CWSRF and a further allocated portion of the Program Bonds were deposited in the Purchase Account (or the former State Match Loan Account) as state match (with such bonds being referred to as the "State Match Revenue Bonds" in this Report) to make loans or for other permitted purposes. The Guarantee Revenue Bonds are revenue bonds within the meaning of 40 CFR 35.3120(d), the net proceeds of which were deposited in the CWSRF. The State Match Revenue Bonds are revenue bonds within the meaning of 40 CFR 35.3135(b)(2), the net proceeds of which were deposited in the CWSRF; their proceeds (together with other match sources) have matched all capitalization grants awarded to date as well as a portion of the not-yet-available FFY 2008 (FFY refers to the Federal Fiscal Year ending September 30 of the year listed) grant by reason of over-match.



qualified Proposed Projects and through their construction improves water quality in the State of Indiana.

*Available Balance:* As of July 1, 2007, the aggregate amount of closed and committed loans were approximately equal to the balance in this account. As additional loans are closed in SFY 2008, such committed amount will exceed amount available in this account ("Excess Commitments"). The aggregate amount held in this account as of July 1, 2007 is shown in the Use Schedule. Accordingly, none of the funds presently on deposit in this account are available for other SRF purposes except to finance closed and committed loans related to qualified Proposed Projects.

#### **Wastewater Participant Loan Principal Account.**

*Sources of Funds:* Funds held in this account come from principal payments on loans made from the Purchase Account and the former State Match Loan Account.

*Uses of Funds:* These funds are used to make payments on the outstanding Guarantee Revenue Bonds as permitted by 40 CFR 35.3120(d) and the Authority's Operating Agreement with EPA. This use indirectly furthers the primary purpose of the SRF by making loan proceeds available to finance qualified Proposed Projects and through their construction improves water quality in the State of Indiana.

*Available Balance:* Approximately annually, this account is fully depleted to make payments on Program Bonds. Accordingly, none of the funds presently on deposit in this account are available for other SRF purposes.

#### **Wastewater Participant Loan Interest Account.**

*Sources of Funds:* Funds held in this account come from interest payments on loans made from the Purchase Account and the former State Match Loan Account.

*Uses of Funds:* These funds are used to make payments on the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds as permitted by 40 CFR 35.3120(d) and 40 CFR 35.3135(b)(2), respectively. This use indirectly furthers the primary purpose of the SRF by making loan proceeds available to finance qualified Proposed Projects and through their construction improves water quality in the State of Indiana.

*Available Balance:* Approximately annually, this account is fully depleted to make payments on Program Bonds. Accordingly, none of the funds presently on deposit in this account are available for other SRF purposes.

**WASTEWATER RESERVE**<sup>4</sup> contains the following accounts:

**Wastewater Reserve Earnings Account.**

*Sources of Funds:* Funds held in this account come from interest payments on loans made from the Purchase Account and the State Match Loan Account together with other earnings on invested Reserve accounts.

*Uses of Funds:* These funds are *first* used to make payments on the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds as permitted by 40 CFR 3120(d) & (f) and 40 CFR 35.3135(b)(2), respectively, and *secondly* transferred to the Reserve Deficiency Account, as described below.

*Available Balance:* Approximately annually, this account is fully depleted to make payments on Program Bonds, with any excess available balances to be transferred to the Reserve Deficiency Account. Accordingly, none of the funds presently on deposit<sup>5</sup> in this account are available for other SRF purposes.

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<sup>4</sup> Pursuant to SRF Indenture modification, effective May 30, 2007, the following Reserve accounts are pledged to particular series of Program Bonds by means of subaccounts therein. Such pledged accounts serving as the Reserve for only one Series of Program Bonds (a "Series Reserve") and are held at a fixed amount (a "Series Reserve Requirement") subject to annual reductions as principal on such Series of Program Bonds are repaid as required by the SRF indenture. While not labeled under this Reserve group of accounts, amount held in Equity serve as security for the payment of Program Bonds, and thus, are part of the "reserve" for the purposes of this Report and the federal Water Quality Act of 1987, as amended.

<sup>5</sup> And before any further transfers to the DWSRF as discussed elsewhere in this Exhibit.

## **Wastewater Reserve Grant Account.**

*Sources of Funds:* Funds held in this account<sup>6</sup> come from Federal capitalization grants drawn when funds are loaned or administrative expenses are incurred, up to the amount therein (and in the Support Account and Equity Grant Account) that equals the perpetuity amount, and any amounts in excess thereof come from State Match.<sup>7</sup>

*Uses of Funds:* These funds are used (i) as security<sup>8</sup> for outstanding Guarantee Revenue Bonds as permitted by 40 CFR 35.3120(d) & (e) and (ii) as a source of payment for the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds as permitted by 40 CFR 35.3120(d) & (f) and 40 CFR 35.3135(b)(2), respectively. This use both directly and indirectly furthers the primary purpose of the CWSRF Program by making financing for qualified Proposed Projects available and through their construction improves water quality in the State of Indiana.

*Available Balance:* The aggregate amount held in this account (as of July 1, 2007 and as anticipated in SFY 2008) is shown in the Use Schedule.<sup>9</sup> In furtherance of these purposes, the funds in this account are invested with certain short-term investments, treasury obligations<sup>10</sup> and long-term high-quality investment contracts (the "Investment Agreements"). The Investment Agreements (a) pay interest semi-annually serving as a source of payment for the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds, (b) mature and may be terminated at the Authority's option as set forth in the attached Schedule 2, and (c)

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<sup>6</sup> Pursuant to SRF Indenture modification, the former State Match Account was consolidated into this Account effective May 30, 2007.

<sup>7</sup> State Match in this account came from State Match Revenue Bonds, and is either from (a) original proceeds that were held as reserve balances from State Match Revenue Bonds issued in 1993, 1994, 1995 and 1997 or (b) principal on loan repayments funded from such proceeds. As of July 1, 2007, such amounts related to State Match on deposit in this account have not been applied to Guarantee Revenue Bonds but may be so applied to make any regularly scheduled payments on the outstanding Guarantee Revenue Bonds as permitted by 40 CFR 35.3120(d) and the Authority's Operating Agreement with EPA.

<sup>8</sup> Pursuant to the financing indentures related to the cross-collateralized outstanding Program Bonds, the Authority is presently required to maintain reserves of at least \$681 million, which is to be held in the Reserve accounts and is not anticipated to be used to make loans to Participants. A portion of the reserves have been allocated to the CWSRF for purpose of this IUP (as shown in the amount set out in the Use Schedule). This is a minimum invested funds requirement. However, the Authority views invested amounts in excess of the foregoing minimum requirement as security and as a source of payment for the outstanding Program Bonds. Further, the Authority expects that the foregoing minimum requirement will increase as additional Program Bonds are issued in SFY 2008 and beyond. Such excess purposes are served by the Equity accounts to the extent that they are not anticipated to be used to make loans to Participants.

<sup>9</sup> And before any further transfers to the DWSRF as discussed elsewhere in this Exhibit.

<sup>10</sup> Other than a \$655,000 SLGS treasury bond.

are available in full (as security) at any time if needed to pay the outstanding Guarantee Revenue Bonds.

#### **Wastewater Reserve Support Account.**

*Sources of Funds:* Funds held in this account come from Federal capitalization grants drawn when funds are loaned or administrative expenses are incurred, up to the amount therein (and in the Reserve Grant Account and Equity Grant Account) that equals the perpetuity amount.

*Uses of Funds:* These funds are used (i) as security for outstanding Guarantee Revenue Bonds as permitted by 40 CFR 35.3120(d) & (e) and (ii) as a source of payment for the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds as permitted by 40 CFR 35.3120(d) & (f) and 40 CFR 35.3135(b)(2), respectively. This use both directly and indirectly furthers the primary purpose of the CWSRF Program by making financing for qualified Proposed Projects available and through their construction improves water quality in the State of Indiana.

*Available Balance:* The aggregate amount held in this account (as of July 1, 2007 and as anticipated in SFY 2008) is shown in the Use Schedule. In furtherance of these purposes, the funds in this account are invested with Investment Agreements. The Investment Agreements as allocable to the Support Account (a) pay interest semi-annually serving as a source of payment for the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds, (b) mature and may be terminated at the Authority's option as set forth in the attached Schedule 2, and (c) are available in full (as security) at any time if needed to pay the outstanding Guarantee Revenue Bonds. Further, Support Account balances are anticipated to applied to as a scheduled source of payment for the outstanding Guarantee Revenue Bonds and when so applied will be replaced by retaining earnings in the Equity Grant Account in an amounts necessary to preserve perpetuity as authorized and required by the Authority's Operating Agreement with EPA.

#### **Wastewater Reserve Deficiency Account.**

*Sources of Funds:* Funds held in this account, if any, will come from other Reserve accounts discussed above when the amounts held in the group of accounts serving as the Reserve any Series of Program Bonds (a "Series Reserve") exceeds its Series Reserve Requirement.

*Uses of Funds:* These funds are used to fund each Series Reserve by immediately transferring them as necessary (the *first* possible use) to each Series Reserve that is below its Series Reserve Requirement on each February 1 and August 1 and *secondly* (if not required for such *first* use) shall be transferred to an Equity account (the *secondary* use; which is expected to occur). Any such transfer is either made to a Grant Account or Earnings Account depending on the source of the funds transferred to the Reserve Deficiency Account.

*Available Balance:* No amounts were held in this account as of July 1, 2007 nor are any so anticipated in SFY 2008.

**WASTEWATER EQUITY**<sup>11</sup> contains the following accounts:

**Wastewater Administration Account.**

*Sources of Funds:* Funds held in this account come from the outstanding State Match Revenue Bonds or other available funds in the SRF.

*Uses of Funds:* These funds are applied to reasonable costs of administering the CWSRF Program as permitted by 40 CFR 35.3120(g). The Authority so applied these funds during the SFY 2007 (and expects to apply them and other funds in the CWSRF<sup>12</sup> to this purpose in the SFY 2008). Any funds not expended in SFY 2007 are banked for management of the CWSRF in perpetuity by the Authority.

*Available Balance:* As of July 1, 2007, the aggregate amount held in this account is shown in the Use Schedule. All of these funds are expected to be used solely to pay reasonable costs of administering the CWSRF Program. Accordingly, none of the funds presently on deposit in this account are available for other SRF purposes.

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<sup>11</sup> While funds held in these Equity accounts are not pledged to the payment of Program Bonds, the SRF Program Representative may, but is not required to, direct that they be used to pay Program Bonds. Further, the Authority would expect such to occur if it was necessary to pay such bonds and, thus, while not labeled under as Reserve in this Report, the CWSRF treats it as part of the "reserve" for the purposes of this Report and the federal Water Quality Act of 1987, as amended.

<sup>12</sup> Amounts set aside in this account only represent a portion of the funds the Authority is permitted by 40 CFR 35.3120(g) to apply to costs of administering the CWSRF Program. Additionally the Authority continues to bank for this purpose the remaining amount up to the full 4% limit as measured against total grants (including the not-yet-available FFY 2008 grant expected to be awarded in SFY 2008).

## **Wastewater Equity Grant Account.**

*Sources of Funds:* Funds held in this account come from Federal capitalization grants drawn when funds are loaned or administrative expenses are incurred, up to the amount therein (and in the Reserve Grant Account and Support Account) that equals the perpetuity amount, and any amounts in excess thereof come from State Match.

*Uses of Funds:* These funds are used (i) as security<sup>13</sup> and as a source of payment for the outstanding Guarantee Revenue Bonds as permitted by 40 CFR 35.3120(d) & (e), (ii) to fund any transfers to the Authority's DWSRF as permitted by law including Section 302 of the Safe Drinking Water Act, (iii) to provide funds to meet costs of administering the CWSRF in perpetuity, and (iv) to fund that portion of any loans closed but not presently on deposit in the Purchase Account<sup>14</sup> in the event additional leveraged Guarantee Revenue Bonds could not be issued for any reason to meet such commitments. This use both directly and indirectly furthers the primary purpose of the CWSRF Program by making financing for qualified Proposed Projects available and through their construction improves water quality in the State of Indiana.

*Available Balance:* The aggregate amount held in this account (as of July 1, 2007 and as anticipated in SFY 2008) is shown in the Use Schedule.<sup>15</sup> In furtherance of these purposes, the funds in this account are invested with certain short-term investments, treasury obligations<sup>16</sup> and long-term high-quality investment contracts (the "Investment Agreements"). The Investment Agreements (a) pay interest semi-annually serving as a source of payment for the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds, (b) mature and may be terminated at the Authority's option as set forth in the attached Schedule 2, and (c) are available in full (as security) at any time if needed to pay the outstanding Guarantee Revenue Bonds.

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<sup>13</sup> Pursuant to the financing indentures, the Authority may use these funds if the Reserve Grant Account were insufficient to pay outstanding Program Bonds. Further, the Authority expects that the foregoing minimum requirement of Reserve accounts will increase as additional Program Bonds are issued in SFY 2008 and will result in a transfer of any uncommitted amounts in the Equity Grant Account to the Reserve Grant Account inclusive of any Capitalization Grants drawn into the SRF after July 1, 2007.

<sup>14</sup> In addition to meeting any Excess Commitments as of July 1, 2007, additional Excess Commitments will occur before additional Guarantee Revenue Bonds are issued. This will result from closing new loans for qualified Proposed Projects with (a) approved preliminary engineering reports (PERs) as of July 1, 2007, (b) PERs submitted and under review by the CWSRF as of July 1, 2007 and (c) additional PERs to be submitted (including as set in the new PPL in SFY 2008), each as detailed in the Use Schedule.

<sup>15</sup> And before any further transfers to the DWSRF as discussed elsewhere in this Exhibit.

<sup>16</sup> Other than a \$655,000 SLGS treasury bond.

### **Wastewater Equity Earnings Account.**

*Sources of Funds:* Funds held in this account come from (a) transfers from the Reserve Earnings Account and the Participant Loan Interest Account undertaken approximately annually or at the time of an issuance of additional Program Bonds and (b) earnings on amounts invested in the Equity accounts.

*Uses of Funds:* These funds are used (i) as security and as a source of payment for the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds as permitted by 40 CFR 35.3120(d) & (f) and 40 CFR 35.3135(b)(2), respectively, like the Equity Grant Account and (ii) to fund that portion of any loans closed but not on deposit in the Purchase Account in the event additional leveraged Guarantee Revenue Bonds could not be issued for any reason to meet such commitments. This use both directly and indirectly furthers the primary purpose of the SRF by making financing for qualified Proposed Projects available and through their construction improves water quality in the State of Indiana.

*Available Balance:* The aggregate amount held in this account as of July 1, 2007 is shown in the Use Schedule.<sup>17</sup>

### **ADDITIONAL INFORMATION CONCERNING EXPECTED USES OF SRF FUNDS**

**Use of Available Balances to Meet Closed Loan Commitments.** Under its existing practices, the Authority closes CWSRF Program loans with Participants without the necessity of having available balances in its Purchase Account to fully fund those loan commitments on the date a CWSRF Program loan is closed. As of July 1, 2007, there were no Excess Commitments. By closing new loans for qualified Proposed Projects with (a) approved PERs as of July 1, 2007, (b) PERs submitted and under review by the CWSRF as of July 1, 2007 and (c) additional PERs to be submitted (including as set in the new PPL in SFY 2008), the aggregate amount of Excess Commitments would become as shown in the Use Schedule.

The Authority expects to cause additional Program Bonds to be issued at times and in amounts sufficient to meet the funding requirements for loans presently closed and those anticipated to be closed in SFY 2008. Additionally, certain amounts held in the Equity Grant Account and Equity Earnings Account are available and would be used to meet a portion of the projected funding requirements for loans presently closed (and those anticipated to be closed in SFY 2008) in the event additional Guarantee Revenue Bonds could not to be issued.

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<sup>17</sup> And before any further transfers to the DWSRF as discussed elsewhere in this Exhibit.

**Use of Available Balances as a Reserve and Source of Payment for Guarantee Revenue Bonds.** Amounts held in the Support Account, Reserve Deficiency Account, Equity Grant Account, Reserve Grant Account Reserve Earnings Account and Equity Earnings Account secure, and are a source of payment, for Guarantee Revenue Bonds as permitted by 40 CFR 35.3120(d) & (f). In addition to this use, a portion of these funds are also held to meet (a) Excess Commitments in SFY 2008 in the event additional Guarantee Revenue Bonds could not to be issued, (b) costs of administering the CWSRF Program in perpetuity, and (c) any transfers to the DWSRF as permitted by law.

**Use of Available Balances as a Source of Payment for State Match Revenue Bonds.** All SRF earnings including amounts held in the Reserve Earnings Account and Equity Earnings Account secure, and are a source of payment, for State Match Revenue Bonds as permitted by 40 CFR 35.3135(b)(2). In addition to this use, a portion of these funds are held to meet (a) Excess Commitments in SFY 2008 in the event additional Guarantee Revenue Bonds could not to be issued, (b) costs of administering the CWSRF Program in perpetuity, and (c) any transfers to the DWSRF as permitted by law.

**Use of Available Balances as a Source of Payment for Administrative Expenses.** All SRF amounts<sup>18</sup> are held to meet costs of administering the CWSRF Program in perpetuity if and as permitted by law.

**Use of Available Balances to Possibly Transfer Funds to the Drinking Water SRF.** During SFY 2008, the Authority expects to continuously refine its analysis of the ability of the resources in its DWSRF to meet demand for its loans. Present analysis evidences that after a transfer as of July 1, 2007 from the CWSRF to the DWSRF, requested Wastewater loans in SFY 2008 will not be met as both the DWSRF and CWSRF Programs would be at their leveraged loan capacity.

As of July 1, 2007, about \$23.6 million has been transferred to DWSRF. As of July 1, 2007, the cumulative transfer amount available for additional transfers from CWSRF to the DWSRF could result in up to \$40.45 million of allowable transfers including 33% of the FFY 2007 grant. The full amount of any such potential transfers is banked.

Further, transfers can be made from DWSRF to the CWSRF up to the cumulative amount made from CWSRF to the DWSRF to date, together with an amount equal to 33 percent of aggregate Drinking Water Capitalization Grants awarded. The full amount of any such potential transfers is banked.

Since the inception of the DWSRF, the Authority (or its predecessor) has banked transfers up to maximum permitted limit and continues to do so; funds held in the Equity Grant Account might be used for this purpose. Such transfer may be effectuated by a transfer of an invested balance from (a) one or more of the Authority's Investment

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<sup>18</sup> Additionally the Authority continues to bank for this purpose the remaining amount up to the full 4% limit as measured against total grants (including the not-yet-available FFY 2008 grant expected to be awarded in SFY 2008).



Agreements or (b) other investments. These invested funds would then be used to support the issuance of Guarantee Revenue Bonds, the proceeds of which would be used to make Program loans. Any such determination would be based on whether the CWSRF or DWSRF program is more in need of funds (when considering their respective priorities) than the other. While a transfer from DWSRF to the CWSRF is not expected, it is also banked to reserve the Authority's discretion.

**Schedule 1**  
**to Exhibit I for the WW Annual Report (SFY 2007)**

	Account Balances* as of: 30-Jun-2007 (Actual)	Future Deposits in SFY
<b><u>A. Funds Committed to Closed (Undrawn Loans) by WWSRF</u></b>		
Purchase Account	\$ 221,400,000	\$ -
	<u>\$ 221,400,000</u>	<u>\$ -</u>
<b><u>B. Other Funds Held in WWSRF</u></b>		
Reserve Grant Account	\$ 516,800,000	\$ -
Reserve Earnings Account	6,500,000	-
Reserve Support Account	34,600,000	-
Reserve Deficiency Account	-	-
Equity Grant Account	97,100,000	50,800,000
Equity Earnings Account	54,700,000	
Equity Administrative Account	300,000	
	<u>\$ 710,000,000</u>	<u>\$ 50,800,000</u>
<b>Total Available Funds (A. and B. above)</b>	<u><u>\$ 931,400,000</u></u>	<u><u>\$ 50,800,000</u></u>

**Proof of Timely & Expedious Use of Above Funds Held in WWSRF\***

Closed Loan (Undrawn loan amounts covered by on-hand Purchase A/C Funds)	\$ 221,400,000
Closed Loan Excess Commitments (after Application of above Purchase A/C **)	-
Closed Loan to be funded directly from Equity (undrawn portion of loan)	-
PERs In-house (approved & under-review) Awaiting Loan Closing	321,689,000
Other Projects on new SFY's PPL, Requesting Loan Funding	268,923,000
1. Use: to cover Loan Demand***	<u>812,012,000</u>
Funds held in existing Administrative Account	300,000
Remainder of 4% banked funds available for Administrative purposes	7,200,000
2. Use: to cover Administrative Costs in Perpetuity	<u>7,500,000</u>
3. Use: to cover Series Reserve Requirement	<u>564,600,000</u>
<b>Possible Uses of Funds (1, 2 &amp; 3 above without considering other secondary purposes for holding them in the WWSRF) # are as follows:</b>	<u><u>\$ 1,384,112,000</u></u>
<b>Uses of Funds (1, 2 &amp; 3 above):</b>	\$ 1,384,112,000
<b>Less: Total Available Funds (A. and B. above)</b>	982,200,000
<b>Amount by which "Possible Uses of Funds" EXCEED "Total Available Funds"</b>	<u><u>\$ 401,912,000</u></u>

**Notes:**

- \* Amounts are approximate & rounded to nearest \$100,000
- \*\* This amount is a net unfunded amount of closed loans after application of the June 30th on-hand balance.
- \*\*\* While use will likely be met with future Program Bonds, possible that on-hand funds could be used. When covered by issuance of Program Bonds used to make subsidized loan, a reserve of 40% to 50% is funded from Equity and additional Program Bonds are used to make pooled loan at a market rate. Such Program Bonds would not be sufficient to meet all needs.

**SCHEDULE 2****SRF INVESTMENT AGREEMENTS**

Funds held in the Reserve Grant Account and certain other accounts are invested in the following Investment Agreements which mature, and may be terminated at the Authority's option only, as follows:

Investment Agreement with:	Final Maturity Date <sup>19</sup>	Optional Termination Date <sup>20</sup>	Scheduled Repayments of Invested Amounts <sup>21</sup>
AIG Matched Funding Corp., dated January 21, 1993	2/1/15	N/A	\$2 to \$3 million
AIG Matched Funding Corp., dated March 24, 1994	2/1/16	N/A	\$1 to \$2 million
AIG Matched Funding Corp., dated February 7, 1995	2/1/17	N/A	N/A
AIG Matched Funding Corp., dated September 30, 1997	2/1/19	Any time	N/A
AIG Matched Funding Corp., Dated, September 29, 1998	2/1/20	2/1/10	\$1 to \$6 million
Citigroup Global Company Inc., Dated, February 13, 2006	8/1/16	Any time	\$1 to \$5 million
Trinity Plus Funding Company, LLC, Dated January 9, 2001	8/1/23	8/1/08	\$0.1 to \$18 million
AIG Matched Funding Corp., Dated, November 14, 2001	2/1/23	N/A	\$1 to \$10 million
AIG Matched Funding Corp., Dated, December 27, 2002	2/1/24	N/A	\$1 to \$2 million
Trinity Plus Funding Company, LLC, Dated March 21, 2006	2/1/29	N/A	\$3 to \$10 million
FSA Capital Management Services LLC, Dated June 19, 2007	2/1/28	N/A	\$-0- to \$15 million

The Authority has structured these Investment Agreements in a manner to assure as great as flexibility as practical to serve the variety of needs required by the SRF. The long-term nature of these investments assures long-term access to quality investment sources and, thereby, balances revenue certainty against known debt obligations associated with Program Bonds. This fosters the ability to issue additional Program Bonds to fund a prudent, maximum level of leveraged loans. Further, repayment features are consistent with the reserve purposes associated with most of these invested funds. These optional termination dates and scheduled repayment features associated with the Investment Agreements, in total, assure access to invested balances at reasonable intervals and are expected to facilitate future leveraged bond issues. However, it also to be understood that this restricts the SRF Program's ability to make use of these invested sums for other purpose (including certain of those uses recited elsewhere in this Exhibit) without negotiating different termination provisions which could result in a charged losses upon any such alternate termination depending upon market conditions and other factors.

<sup>19</sup> If not repaid sooner, all invested sums are required to be repaid to the Authority by this date.

<sup>20</sup> On or after this date, the Authority may terminate the investment at its option and all invested sums will then be required to be repaid to the Authority without any premium (or other market to market payment).

<sup>21</sup> Each February 1 (except for the 2000 & the first 2001 Investment Agreements, which is each August 1), commencing in 2008 (except for the first 2001 Investment Agreements, which is 2019), a portion of the invested sums is required to repaid annually to the Authority. These annual amounts are set out in a schedule to each agreement and range within the amounts shown in this column.

Exhibit J  
SFY 2007 CWSRF Loan Program Quarterly Interest Rates

State Fiscal Year (SFY) By Quarter (Qtr)	User Rates (Over \$45)	User Rates (\$25 to \$45)	User Rates (Under \$25)
Tier III (MHI: under \$33,669)			
1 <sup>st</sup> Qtr SFY 2007	2.70%	2.95%	3.45%
2 <sup>nd</sup> Qtr SFY 2007	2.40%	2.65%	3.15%
3 <sup>rd</sup> Qtr SFY 2007	2.26%	2.51%	3.01%
4 <sup>th</sup> Qtr SFY 2007	2.26%	2.51%	3.01%
Tier II (MHI: \$33,670 to \$41,566)			
1 <sup>st</sup> Qtr SFY 2007	2.95%	3.20%	3.70%
2 <sup>nd</sup> Qtr SFY 2007	2.65%	2.90%	3.40%
3 <sup>rd</sup> Qtr SFY 2007	2.51%	2.76%	3.26%
4 <sup>th</sup> Qtr SFY 2007	2.51%	2.76%	3.26%
Tier I (MHI: over \$41,567)			
1 <sup>st</sup> Qtr SFY 2007	3.20%	3.45%	3.95%
2 <sup>nd</sup> Qtr SFY 2007	2.90%	3.15%	3.65%
3 <sup>rd</sup> Qtr SFY 2007	2.76%	3.01%	3.51%
4 <sup>th</sup> Qtr SFY 2007	2.76%	3.01%	3.51%

Up to an additional .50% reduction is possible if a non-point source project is financed along with a point source project.  
 An additional .25% increase is also possible if a loan is determined to have a long weighted average loan life.  
 The SRF Pooled Program Participants receive the "AAA" interest rate that is available to the SRF Program at the time of their loan closing.

## Exhibit K

### TRANSFERS

Consistent with its Intended Use Plans and EPA Policy Statement (FRL-6884-7, 65 FR 199, 10/13/00, pg. 60940), the State is reporting on transfers between the WWSRF and the DWSRF. In its Intended Use Plans, the State retained the flexibility to make transfers of grants (and other funds) held in or allocable to such funds to the extent permitted by the Clean Water Act and the Safe Drinking Water Act. As of June 30, 2007, an amount of up to 33% of the Safe Drinking Water Act grants for FFYs 1997 through 2002 could be so transferred on a net cumulative basis. Based on the State's award of Safe Drinking Water Act related funds for FFY 1997 through 2002, to date, approximately \$23.6 million has been transferred to the DWSRF from the WWSRF. The following transfers were made from the 1998 Restricted Subaccount of the Wastewater Equity Account held under the Wastewater Indenture, which represents federal grants previously converted to cash and deposited in that account, to the Drinking Water Trustee for deposit in the 1998 Restricted Subaccount of the Drinking Water Equity Account held under the Drinking Water Indenture:

<u>Transfer Dates</u>	<u>Transfer Amounts</u>
August 25, 2000	\$17,479,407
February 15, 2001	2,985,491
May 1, 2002	<u>3,120,183</u>
Total	\$23,585,081.00

Such transfers did not negatively affect the capacity of the WWSRF to finance proposed projects during SFY 2007.

**Exhibit L**  
**Indiana SRF Wastewater Loan Program**  
**Summary of Closed Loans for SFY 2007**

<b>Closing Date</b>	<b>Participant</b>	<b>Interest Rate</b>	<b>County</b>	<b>Population</b>	<b>Loan Amount</b>
07/31/06	Churubusco, Town of	3.70%	Whitley	1,666	\$ 840,000
08/17/06	Tell City, City of	3.45%	Perry	7,845	1,425,000
10/10/06	Hartsville, Town of	3.15%	Bartholomew	376	386,000
11/17/06	Alexandria, City of	2.90%	Madison	6,260	400,000
11/27/06	Liberty, Town of	2.65%	Union	2,061	5,600,000
11/29/06	Mount Vernon, City of	2.90%	Posey	7,478	400,000
12/15/06	Centerville, Town of	2.65%	Wayne	2,427	3,400,000
12/15/06	Columbia City, City of	2.90%	Whitley	7,077	6,928,000
12/15/06	Columbus, City of	3.65%	Bartholomew	39,059	27,449,000
12/15/06	Indianapolis, City of	2.90%	Marion	731,278	34,750,000
12/15/06	Union City, City of	2.85%	Wayne	3,622	1,720,000
12/29/06	Aurora, City of	2.65%	Dearborn	3,965	4,000,000
12/29/06	New Albany, City of	3.95%	Floyd	37,603	1,280,000
01/31/07	Cloverdale, Town of	3.95%	Putnam	2,243	720,000
05/30/07	Greensburg, City of	4.39%	Decatur	10,260	8,500,000
05/30/07	Hammond, City of	4.14%	Lake	83,048	17,225,000
05/30/07	Wolcott, Town of	4.39%	White	989	688,000
					<u>\$ 115,711,000</u>



# State Revolving Fund Clean Water Projects (SFYs 1992-2007)

## Legend

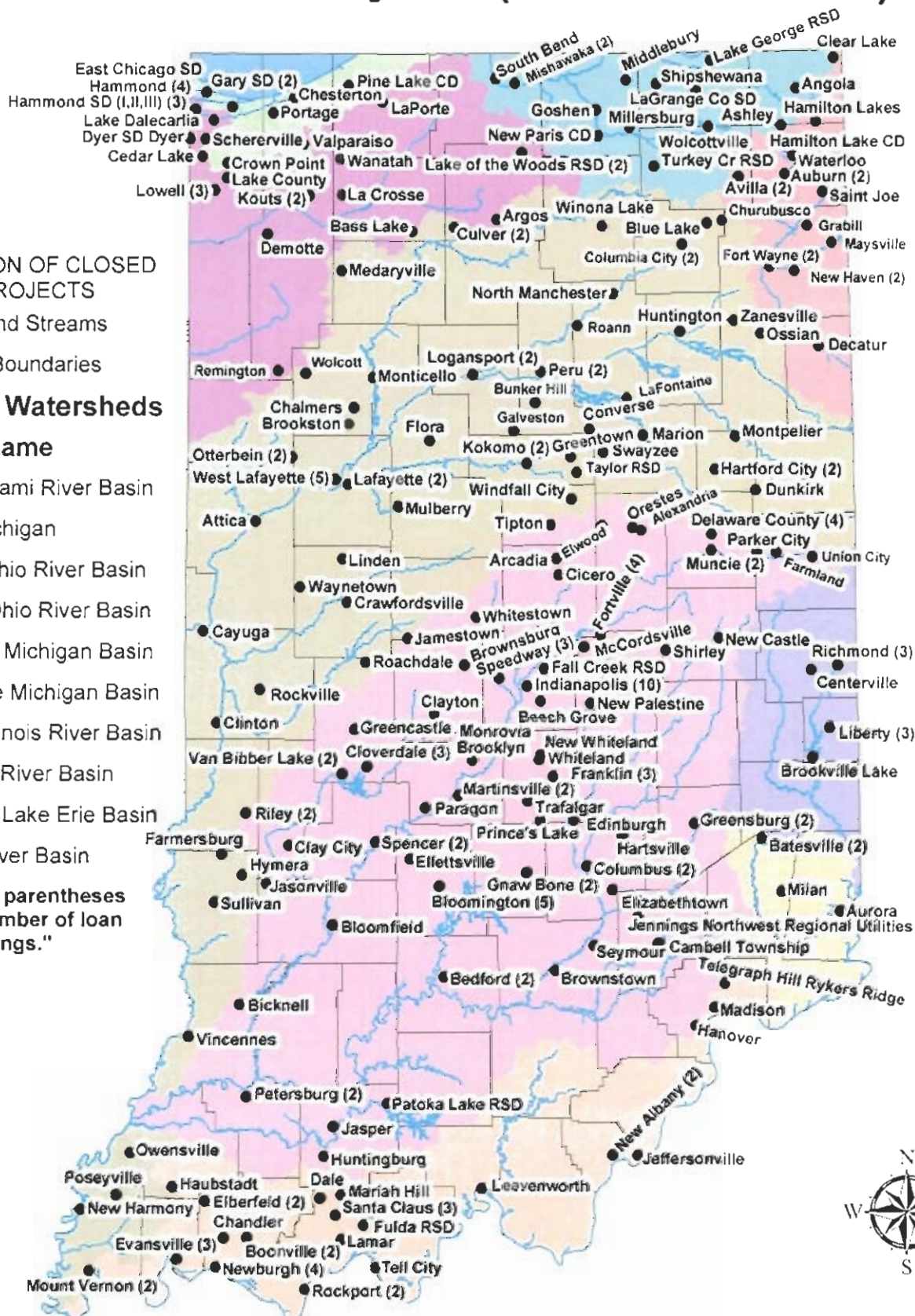
- LOCATION OF CLOSED LOAN PROJECTS
- Rivers and Streams
- County Boundaries

## 8 Digit HUC Watersheds

### Watershed Name

- Great Miami River Basin
- Lake Michigan
- Lower Ohio River Basin
- Middle Ohio River Basin
- SE Lake Michigan Basin
- SW Lake Michigan Basin
- Upper Illinois River Basin
- Wabash River Basin
- Western Lake Erie Basin
- White River Basin

"Numbers in parentheses indicates number of loan closings."



Map Data Sources:  
County Boundaries are from Census 1995  
Fund sites are very general locations of cities or towns and are not intended to represent specific buildings or places.  
Large rivers and streams from 1:100,000 DLGs  
Projection: UTM NAD83

1 inch equals 31.316355 miles

0 5 10 20 30 40 Miles

0 15 30 60 90 120 Kilometers

IDEM Office of Water Quality  
Compliance Branch  
Data & Info Services Section  
Revised September 19, 2007  
By Data & Info Services Staff



# State Revolving Fund 2007 SFY Clean Water Projects

SFY 2007 - \$115,711,000

## LOCATION OF CLOSED LOANS AND AMOUNT

- Alexandria, \$400,000
- Aurora, \$4,000,000
- Centerville, \$3,400,000
- Churubusco, \$840,000
- Cloverdale, \$720,000
- Columbia City, \$6,928,000
- Columbus, \$27,449,000
- Greensburg, \$8,500,000
- Hammond, \$17,225,000
- Hartsville, \$386,000
- Indianapolis, \$34,750,000
- Liberty, \$5,600,000
- Mount Vernon, \$400,000
- New Albany, \$1,280,000
- Tell City, \$1,425,000
- Union City, \$1,720,000
- Wolcott, \$688,000

— Rivers and Streams

— County Boundaries

## 8 Digit HUC Watersheds

### Watershed Name

- Great Miami River Basin
- Lake Michigan
- Lower Ohio River Basin
- Middle Ohio River Basin
- SE Lake Michigan Basin
- SW Lake Michigan Basin
- Upper Illinois River Basin
- Wabash River Basin
- Western Lake Erie Basin
- White River Basin

"Numbers in parentheses  
indicates number of loan  
closings."

Map Data Sources:  
County Boundaries are from Census 1996  
Fund sites are very general locations of  
cities or towns and are not intended to represent  
specific buildings or places.  
Large rivers and streams from 1:100,000 DLGs



0 4 5 9 18 27 36 Miles  
0 10 20 40 60 Kilometers

IDEM Office of Water Quality  
Compliance Branch  
Data & Info Services Section  
Revised September 19, 2007  
By Data & Info Services Staff



Exhibit N

**USE OF "NON-FEDERAL" FUNDS FOR OTHER PURPOSES**

A portion of the funds held by the SRF Loan Program are considered "non-federal" funds. These funds include interest earned on SRF investments and certain borrower repayments. The SRF Loan Program utilizes a portion of these moneys to fund SRF eligible project expenses that can also be attributed to a state or local match for federal grant funding. Examples include funds needed to provided a local match for other federal grants and the required State match for EPA's Section 319 grants. The table below summarizes the accumulation of these "non-federal" funds, as well as documents how a portion of the funds have been allocated.

Beginning Balance <sup>1</sup> @ 7/1/06	\$ 85,334,649
Increase/(Decrease) in fund balance	\$ (30,610,554)
Balance as of 6/30/07	54,724,095

**ALLOCATION OF "NON-FEDERAL" FUNDS FOR FEDERAL MATCH**

Allocated for a Portion of the State Required 319 Match<sup>2</sup>

FFY 2004	2,500,000
FFY 2005	2,500,000
FFY 2006	2,500,000

Hammond Non Federal Match for US Army Corp of Engineers grant 925,000

Available for Future Allocation \$ 46,299,095

<sup>1</sup>The Wastewater Equity Excess Earnings Account is made up of recycled "non-federal" funds.

<sup>2</sup>As of June 30, 2007, the SRF Loan Program has made Non-Point source loans in the amount of \$108.5 million, which have been attributed to the state required 319 match.

Closing Date	Participant	Loan Amount	NPS Portion	Disbursed	NPS Disbursed
06/30/04	City of Evansville	\$ 7,130,000	\$ 1,081,937	\$ 7,130,000	\$ 1,081,937
08/24/04	City of Indianapolis	25,000,000	3,466,230	22,600,984	3,133,608
08/31/04	Jennings NW RUD	6,200,000	2,174,437	6,200,000	2,174,437
10/01/04	Fulda RSD	420,000	270,408	410,896	264,547
11/10/04	Delaware Co. RWD	1,100,000	1,100,000	1,085,145	1,085,145
12/13/04	Taylor RSD	3,905,600	2,450,842	3,905,600	2,450,842
12/29/04	Town of Fortville	2,370,000	564,573	1,750,969	417,110
12/29/04	City of Indianapolis	70,000,000	25,679,058	50,237,283	18,429,230
02/28/05	City of New Haven	4,100,000	3,872,904	4,100,000	3,872,904
07/29/05	Campbell Township RSD	845,000	845,000	697,813	697,813
09/29/05	City of Columbia City	16,672,000	49,032	13,517,999	39,756
09/30/05	Town of Fortville	1,630,000	1,630,000	1,100,495	1,100,495
10/14/05	City of Fort Wayne	40,000,000	2,884,702	25,322,375	1,826,188
12/29/05	City of Indianapolis	90,000,000	20,104,248	43,953,261	9,818,303
12/30/05	Muncie SD	17,960,000	1,118,436	12,441,466	774,776
06/30/06	City of Indianapolis	35,250,000	8,836,444	15,838,132	3,970,291
06/30/06	Spencer MSW	350,000	38,500	334,703	36,817
08/17/06	City of Tell City	1,425,000	1,171,182	908,292	746,509
12/15/06	Town of Centerville	3,400,000	244,375	416,267	29,919
12/15/06	City of Indianapolis	34,750,000	30,932,406	3,721,081	3,312,287
		\$ 108,514,714			\$ 55,262,915

Allocated for a Portion of the State Required 319 Match 7,500,000

"Banked" toward Future Allocation of Match \$ 47,762,915